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FARM CREDIT NEEDS AND REAUTHORIZATION LEVELS FOR FARMERS HOME ADMINISTRATION LOAN PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

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FARM CREDIT NEEDS AND REAUTHORIZATION LEVELS FOR FARMERS HOME ADMINISTRATION LOAN PROGRAMS

WEDNESDAY, MARCH 23, 1983

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:37 a.m., in room 332, Russell Senate Office Building, Hon. Paula Hawkins (chairman of the subcommittee) presiding.

Present: Senators Hawkins, Zorinsky, and Boren.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Senator HAWKINS. The Subcommittee on Rural Electrification will come to order.

Good morning. The Senate is going to go into session this morning at 10 o'clock and we expect a series of votes, so I would like to start this hearing with the request that those testifying today would summarize their statements, and we'll insert their full statement in the record, including my own,[1] in the interest of time, so that we can expedite these hearings and not be interrupted so many times in the event we are called to the floor to vote.

The Subcommittee on Agricultural Credit and Rural Electrification is having this hearing to look at credit conditions in rural America

Congress has before it several bills intended to relieve the difficult conditions facing farmers in rural communities, and it is my belief that a comprehensive approach to reauthorizing the Farmers Home Administration will do much to aid this effort.

We would like to update the information we gathered in a similar hearing on this same subject a year ago, and that basically is the thrust and the purpose of the hearing here today.

We are privileged to have Hon. Frank Naylor, Under Secretary for Small Community and Rural Development, with us, and also Hon. Don Wilkinson, who is Governor of the Farm Credit Administration.

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[1] See p. 35 for the prepared statement of Senator Hawkins.

STATEMENT OF HON. FRANK NAYLOR, UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. NAYLOR. Good morning, Senator Hawkins. As always, it's my great privilege to have the opportunity to work with you as you chair this committee, and you've worked very closely with us on credit matters.

The reauthorization, the Con Act, I think is very important, of course, to the operations of the Farmers Home Administration.

The administration does have a proposal which it has submitted to Congress. We will submit for the record the details concerning that bill with your permission.[1]

Senator HAWKINS. So ordered.

Mr. NAYLOR. It is very comparable to many of the provisions in the basic bill which you introduced last year. We look forward to working very closely with you and the members of your subcommittee as we prepare to get this reauthorization into place and move it on through the Congress which is very important to the operations of the Farmers Home Administration.

We continue to be gravely concerned about the advisability and the content of various other pieces of legislation which are now being considered in the credit area, and which relate to the reauthorization bill.

On March 8, Secretary Block submitted to the House, where comparable legislation is being considered, a statement dealing with the economic emergency programs, the foreclosure/moratorium provisions which appear in legislation that now has been introduced in the Senate. He also indicated that we are strongly concerned about the potential damage that would be done to the good credit standing of our agricultural industry by the imposition of provisions like these. When coupled with the budget considerations and administrative burden, as we continue to review some of these proposals it is becoming more and more evident we have no choice but to strongly oppose their inclusion.

If legislation like this is passed by the Congress, the Secretary will have to give serious consideration to recommending a veto by the President.

We think a more appropriate course of action is to prepare and bring forward an appropriate and well-thought-out reauthorization bill. We commend you for your willingness to undertake that very difficult task, and we look forward to working with you to accomplish that as we progress in an orderly fashion through the coming year.

With that, if I may, we would be pleased to provide a written statement for the record reviewing the comparable details of your proposal and the administration bill, and we look forward to working with you closely on it, and we would be prepared to answer any questions that you might have this morning.

[The following material was subsequently submitted by Mr. Naylor:]

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[1] See p. 3.

The bill S. 765 introduced by Senator Hawkins, and the bill S. 857 submitted by the Administration and introduced by Senator Helms, both would treat with the following subjects:

1. Program funding authorizations for fiscal years 1984, 1985 and 1986 for loan programs authorized by the Consolidated Farm and Rural Development Act. Amounts proposed for authorization differ in the two bills. The amounts that would be provided under S. 857 correspond to the President's budget request for FY 1984.

[Amounts per year]

	S. 765	S. 857
Farm real estate loans	$818,000,000	$680,000,000
By category:		
Farm ownership insured [1]	700,000,000	600,000,000
Farm ownership guaranteed [1]	75,000,000	50,000,000
Soil and water insured [1]	25,000,000	20,000,000
Soil and water guaranteed [1]	6,000,000	6,000,000
Indian tribal land	12,000,000	6,000,000
Farm operating loans	1,600,000,000	1,860,000,000
By category:		
Insured [1]	1,547,000,000	1,810,000,000
Guaranteed [1]	53,000,000	50,000,000
Disaster emergency farm loans	([2])	1,540,000,000
Water and waste disposal loans	300,000,000	250,000,000
Community facility loans	130,000,000	100,000,000
Business-industrial guaranteed loans	400,000,000	([3])

[1] Funds 25 percent transferrable between insured and guaranteed categories.

[2] Amounts necessary.

[3] None.

2. The bill S. 765 would require that 15 percent of Farm Ownership and Farm Operating loans be for low-income, limited-resource farmers. The bill would also require that provisions be made for recapture of all or a portion of subsidy provided to a limited-resource borrower when the borrower makes disposition of property that was acquired with limited-resource loan assistance.

The Administration-endorsed bill S. 857 would terminate subsidized lending to limited-resource farmers. This recommendation is supported by FmHA experience showing that sound farm development should be based on the use of unsubsidized credit, and recent reduction of unsubsidized FmHA loan interest rates to levels that limited-resource operators can afford.

3. Both bills provide that a farmer carry federal crop insurance, if available, as a condition of eligibility for an FmHA disaster emergency loan. The bill S. 765 also would require crop insurance, if available, as an element of loan security.

In their other parts, each bill treats with matters not addressed in the other bill.

Senator **Hawkins**. Thank you. Mr. Wilkinson, would you like to give a statement, and then we'll have some questions for you both.

STATEMENT OF HON. DONALD WILKINSON, GOVERNOR, FARM CREDIT ADMINISTRATION

Mr. **Wilkinson**. Thank you, Madam Chairman.

I think the best function which we may play this morning as the representatives of the Farm Credit System will be to give you a very brief overview as to the credit situation that we see prevailing in American agriculture, at least from the perspective of the Farm Credit System.

I think, as you so well know, we're speaking now of the farmer-owned private cooperative Farm Credit System which has providing its operating credit the production credit associations, the long-term credit is provided by the Federal land banks, and then the banks for cooperatives make credit available for cooperatives.

This last year, the System had $80.4 billion outstanding. Its growth last year was the smallest it has been in many years, 2.8 percent, as compared to a normal growth of 15 to 18 percent, which reflects, I think, the fact that farmers are tightening their belt, if we may use that term.

We are quite concerned that for 3, and in some cases 4, consecutive years they have been forced to substitute credit or debt as a replacement for income, and that is the basic problem we're facing.

Two things we would like to do in only a moment. One is to share with you a few of the details from our last credit monitoring report which, I think, shows the credit condition prevailing as it pertains to the 1 million farmers who use the Farm Credit System.

Second, we would like to just take 1 minute and indicate what this System is doing in attempting to stay with these borrowers through these very critical times.

It is for this purpose, Madam Chairman, that I have with me Dr. George Irwin, our chief economist, and Mr. Larry Edwards, our deputy governor for supervision.

If permitted, I would like to ask Dr. Irwin to share only a few of these statistics from our last credit long-term report. Would that be satisfactory?

Senator HAWKINS. Surely.

Dr. IRWIN. OK. I think the point to start with is that the Farm Credit System was serving more borrowers at the end of this 1982 year than it was at the beginning. That is a bit of a contrast to the impression that commercial lenders are shutting off and forcing everybody into bankruptcy or something like that.

Repayments and collections in the Farm Credit System generally stayed strong during 1982. They were weaker than they would have been 2 or 3 years ago.

One of the reasons for strengthened collections was that the Commodity Credit Corporation programs in support of farm prices were rather extensive in providing funds during the last part of last year.

Both the land banks and FCA's were refinancing and renewing a larger number of loans, but that number is only up by a modest amount.

One of the significant numbers in the whole System is delinquencies. They were running just over 3 percent of the number of loans outstanding. In the case of the land bank mortgage area, that's four-tenths of 1 percent of outstanding amount of loans. It's a little under 5 percent in the production credit system at year end.

We continue to see increases in the number of loans in the process of liquidation, in the number of foreclosures that take place, and in the number of bankruptcies. But, again, these numbers are at modest levels.

During the last year, or at the end of last year, we had a total of 1,370 land bank loans involved in some stage of a foreclosure action as compared to 700 the year before. That's out of a grand total of some 700,000 loans.

Production credit associations had about 1,072 accounts in some stage of foreclosure out of some 380,000.

So there are a small percentage of the accounts in severe difficulty, but a lot of others that are seeming to make it through with their payments, and surviving financially.

Mr. WILKINSON. We might indicate that the production credit associations were authorized exactly 50 years ago. We're not here celebrating that, but I think it might help to put in perspective that the losses shared by the production credit associations, these are the losses to these cooperatives, this last year, 1982, of over $160 million equaled 75 percent of all of the losses during the entire previous 50 years of the production credit assocations.

Now, this is of grave concern to us and to you, because it does mean that farmers have faced some very severe losses.

We, at this time, however, want to assure the investors—because, of course, the System is financed by the sale of securities—that an adequate reserve for loss program has been initiated over the years and covers the loss picture very adequately.

At the last meeting of the Federal Farm Credit Board, and following that in a letter submitted to you, the Board established and reaffirmed again its position regarding staying with its borrowers as long as possible.

I am going to quote from that:

> . . . so long as there appears to be a reasonable possibility for him or her to work out the financial difficulties, and to reestablish a fully viable farm business. In so doing, System institutions must be prepared to require that adjustments be made or disciplines exercised to help assure the borrower's ultimate recovery.

This policy has been submitted to you and to other committees within the Congress and to our System, and I think it would be helpful now if we asked Mr. Edwards to indicate what a loan officer may do in working with one of our borrowers to try and help that person possibly through another year until income is improved.

Mr. EDWARDS. That process starts, Madam Chairman, with the farmer and the loan officer sitting down and doing a thorough analysis of the farm business to determine whether or not that business does have the opportunity to survive, and if so, what adjustments must be made in it.

The loan officer may use any number of actions to assist in that process: principal payments may be deferred, amortization of the loan may be extended, assistance might be given in carrying short-term credit over the long term, spread out the repayment schedule. It's only in the very final instance that they take that loan to foreclosure.

In all instances in the System where a farmer's loan is in the process of foreclosure, the approval of the board of directors of the association, who are themselves farmers, is required. The Board goes through with their management that same analysis as to the work ability of the farmer.

It's a very extensive process. I think that's evidenced by the small number of loans that are in foreclosure.

Senator HAWKINS. How long does this take?

Mr. EDWARDS. It depends entirely on the circumstances. It can be a fairly short period of time if the pressure is great, in the crop season, and it can be extended over a long period of time, if they start working on it soon enough.

I would think probably the minimum time it would take, having concluded that a loan was going to have to go to foreclosure, until actually taking action, would probably be several months.

Senator HAWKINS. Thank you.

Mr. WILKINSON. We would emphasize that we truly believe in this philosophy of forbearance, trying to work within it. We would also strongly emphasize, Madam Chairman, our opposition to any kind of an imposed, mandated moratorium. We do because—especially when you're dealing with a farmer-owned cooperative credit system—you are actually rewarding the poor borrower who is creating this problem and penalizing the sound borrower, because his costs are going to be increased through higher increased interest rates.

The money has already been secured from the money market, so you can have a moratorium on farm payments, but the interest payments and the principal repayments are going to have to be taken care of anyway.

Again, I reaffirm our stand in opposition to a moratorium concept.

Madam Chairman, we have presented to you the report which I think includes much more information than may be of interest to you and your committee, and I now invite any questions that you may have.

Senator HAWKINS. Thank you.

Mr. Naylor, I gave you an article that appeared March 13th in the Miami Herald, headlined "Indebted Farmers Reap Foreclosures", which is a mixed bag report.

Have you had time to look that over and give a comment on it since it is such a lengthy article?[1]

Mr. NAYLOR. Madam Chairman, as you and I have previously discussed, and we discussed with the committee, there are some very appropriate points made in the article.

We have prepared and presented to the President a little over 1 month ago an assessment of the current credit situation and we have shared that with many Members of Congress and with various commodity and farm groups here in Washington and around the country. It addresses many of these same questions.

Starting in the early 1970's period, there was a significant run up of credit generally in the agricultural sector. Starting in 1970 there was a total outstanding indebtedness of about $54 billion. We expect it to be around $215 billion at the end of this year as opposed to assets slightly in excess of $1 trillion.

A good deal of this run-up during the early 1970's was predicated more on increasing real estate values, and in many instances commercial lenders did not adequately look at repayment ability or adequately supervise loans as perhaps some of us involved in that business might have done, because clearly the real estate values were increasing at a rate that were adequate to cover subsequent borrowing requirements.

Then, as the commercial sector, I think, began to review and scrutinize loans more carefully and thoroughly and look at some of these other factors, where some of the leverages were becoming excessive, the Government stepped in with a piece of legislation called the Economic Emergency Act.

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[1] See p. 100 for a reprint of the article from the Miami Herald.

That act had very loose credit standards, and there were very substantial, very loose credit provisions with regard to repayment ability, and with regard to the collateral that was necessary for the loan. The agency, at that time, was directed to very aggressively put out substantial amounts of lending.

This certainly, as indicated in subsequent GAO and Inspector General reports, both for the Department and Congress, caused some significant problems.

Undoubtedly these funds were used inappropriately for some farming purposes, or for nonfarming purposes. There were individuals probably not adequately prepared, nor supervised, who were brought into the farming business in some circumstances.

We are working with those cases, and where there is any reasonable prospect of a successful farming operation, we believe that we will be able to work individual problems through.

There are a few that will not make it. Last year in the Farmers Home Administration there were 844 completed foreclosures; there were about 6,000 other liquidations, voluntary or involuntary, filings for bankruptcy, or other action resulting in individuals leaving the farming business—out of the 270,000 borrowers that we have.

I think the much more important thing in that regard, however, is the other side of the coin. The President, himself, has been deeply concerned about the credit needs and the ability of us to serve producers who are in farming as a livelihood, who are operating on behalf of their families, and who we want to see stay in the farming business.

In that regard, during the 1982 year, we provided special consideration or action or support for some 42,000 of our 270,000 borrowers in the form of reschedulings or deferments, or reamortizations or subordinations—in many cases to the Farm Credit System and commercial lenders so they could stay with their borrowers.

I think it is indicative of the President's concern and the Secretary's concern that that program has been successful. We think we are dealing with and coping with the needs of individual producers, and will be able to see them through.

We do not believe that the numbers are unmanageable or that we cannot work very closely with the numbers of borrowers involved, although it is impossible to put a precise figure on the number of producers that are in significant financial difficulty, and by that I mean in jeopardy because of delinquencies or foreclosure actions or other serious credit problems.

If you evaluate, though, the estimates of the problem cases in the commercial sector, of the Farm Credit System, and Farmers Home, an estimate in tbe 50,000 to 100,000 range of our 2.4 million producers nationally would be the number that face some serious difficulty.

Those almost in their entirety we will be able to help in some way, those that are willing to take supervision, those that are willing to follow good management practices, we are convinced that we will be able to assist either through Farmers Home, or in cooperation with the Farm Credit System and the commercial system.

We have been very appreciative of the strong support and cooperation we have had from the Farm Credit System and the commercial lenders in our efforts to accomplish that.

Certainly, I think, as the record will show, and as your article indicates here, there were some unfortunate lending practices carried out in the late 1970's by the Government that have created, to some degree, some of the problems with which we are faced.

It will take a while to resolve all of those, but we think we will be successful in that effort also.

You didn't really ask for that long a comment.

Senator HAWKINS. No, I didn't, but you answered about four questions we had for you.

You would not agree, then, with Mr. Sweringen, who is a very fine man, farmer, and farm equipment dealer in Mariana, who I know very well who in this article said that the answer to the entire problem would be to abolish the Farmers Home Administration.

Mr. NAYLOR. No, not at all, and I notice he also said he wouldn't let some of our people run a popcorn stand. I would take issue with that. I think our career people are some of the finest career employees in the U.S. Government. They are dedicated. They give of themselves, both on and off duty and have done a very commendable job.

I think some of the policy direction they received in the late seventies was not what we certainly would have recommended and perhaps was counterproductive to the best interests of some producers.

Senator HAWKINS. I'm sure every one is aware that on the front page of the Washington Post this morning it was reported that Secretary Block announced that the overwhelming participation of PIK, the payment-in-kind program, is some 82 million acres of wheat, corn, cotton, and rice are scheduled to be taken out of production and it could mean nearly a 25 percent cut in production of wheat and corn for next year.

This really contributes, according to all the figures I've seen, to a better picture for farm income next year. Wheat is up in Kansas City—and corn is up in Chicago.

The USDA index of farm process was up over 3 percent during the period of January and February, so, clearly, as we sit here today, the situation facing farmers today is more positive probably than in any other month since this administration took office.

Would you agree with that.

Mr. NAYLOR. I think certainly as Secretary Block indicated yesterday, the American farmers were sending a message, and the message was that they wanted to cope with these very large surpluses that we created, and cope with them promptly. Certainly the participation levels in the payment-in-kind program were beyond anyone's expectations. We are enormously pleased with the level of participation.

I think that will certainly ease the pressure in many respects on the credit situation. We are, as I'm sure Governor Wilkinson's system will be doing, and the commercial banks will be, working very closely with producers to evaluate what credit requirements will be with the reduced planning, and how that will improve farmers' position. I think PIK will reduce some of the pressure in the credit area, and will reduce to some degree the amount of credit that is necessary, particularly in the commercial and farm credit sectors.

We have asked our people to assess and report to us as quickly as possible what those adjustments may be, and we expect to have that available very shortly.

I'm confident that the commercial sector probably is going to be going through that same process, but certainly it gives us a much brighter picture in agriculture, one that is going to react much more quickly than we might have expected and one that I think bodes well for the American farmer.

Senator HAWKINS. During our hearings last year, you stressed the importance of bringing the FmHA computer, that infamous computer, on line in an effort to bring speed and some modernization to the processing of applications. How are you coming?

Mr. NAYLOR. We are a little behind the schedule we had set for ourselves, but we do expect to have that conversion made to the more modern equipment early next year.

It is of major importance that we do so for our producers and the loans that we service. We continue, despite massive efforts on the part of the personnel in the agency, particularly those in our St. Louis finance center, to fall short in providing the kinds of management information that we would like to have—to not provide the type of timely service we would like, or information on loans.

We have done significantly better this year. In loan processing we are 30 to 60 days ahead of a comparable period a year ago. But we still need a great deal of improvement. The conversion next year, I think, will be a major step which producers and our personnel will appreciate.

Senator HAWKINS. Senator Huddleston would like me to ask you this question for him, Mr. Naylor.

The cost of deferral: To qualify for a deferral under S. 24, among other criteria, the borrower must be able to show to the satisfaction of the Secretary that he has a reasonable chance to repay the interest and principal on his loan.

CBO, in its analysis of the cost of S. 24, stated that because deferred loans will be repaid with interest, the major cost of the deferral provision will be administrative.

Does the administration concur with CBO that most loans deferred will be repaid, No. 1, or is default and foreclosure anticipated in a majority of the cases?

Mr. NAYLOR. Well, certainly default and foreclosures are not anticipated, but there is a significant cost involved, because you are deferring return of principal and interest for a year.

We borrow money, as everyone else does, and that means we have got to go out and borrow that money that we were not receiving in the form of repayments to cover our securities. In fact, we estimate, the Office of Management and Budget and the Department, that the overall cost of the Huddleston proposal is somewhat higher than even the CBO estimate, and that it is a very technical matter which I would be pleased to submit some detail for the record, and think it would be helpful if we might do so.

[The following material was subsequently submitted by Mr. Naylor:]

The Office of Management and Budget (OMB) estimates the actual final cost of the deferral provision of the bill S. 24 at more than $6.8 billion resulting from lack of payments made by virtually 100 percent of all FmHA borrowers until legal appeals have been exhausted. Taking into account all provisions of S. 24, OMB estimates that the bill would result in increased outlays of $9.3 billion, including $7.4 billion in on-budget and $1.8 billion of off-budget outlays.

Mr. **Naylor**. But the budgetary impact potential is substantial. I think we have to recognize that any change from the present legislation increases the likelihood that the number of people which might be able to qualify under any given set of conditions would increase; and that potential, either court or other action might effectively require us to make this much more generally available than the authors anticipated.

It's because of that we have consistently, within the administration, indicated that we have made full use, and I think the record clearly demonstrates that, of the authority available to us, and that we have shown compassion and concern and will continue to do so. The reports from the field indicate that that has been the case, and that the type of proposal here is not needed, and will be inappropriate, will result in instances of where it should not be made.

It is costly in terms of budgetary expenditures, and does not take care of most of America's farmers. We're talking about 12 percent of the market share, in lending. That is what Farmers Home has. Eighty-eight percent of America's farmers would get no benefit from this at all, and it would not be of any meaning to them.

Because of that and a wide range of other reasons, we have and continue to strongly recommend against this type of legislation and the reasons why we have indicated to both the House and the Senate. And if legislation containing this type of language and some other similar provisions in other lending areas is passed and submitted, the Secretary will have to strongly consider, after looking at the final form, perhaps recommending to the President that he entertain a veto on this legislative approach.

Senator **Hawkins**. I also sit on the Banking Committee as you know, and we had hearings last week on consumer interest rates and why they are so disproportionately and historically high, in comparison to the prime rate, and we had a lot of testimony with a lot of reasons why that could be.

One of the most interesting concepts in all the expert witnesses' testimony was that credit is very expensive to some degree because of the high number of bankruptcies, because it's easy to go bankrupt, take personal bankruptcy, with the new leniency in the laws, and that that amount of this resulting loss has to be spread over the whole customer body. In fact, they made the statement they do not make any money at all on credit cards, which is very surprising.

However, isn't that the gist of what you're saying, that if indeed we have a small percent that do not pay, or are allowed not to pay, that the cost of the poor credit risks will be spread out on those that have good credit?

Mr. **Naylor**. Certainly, it is a concern. The American farmer historically has an outstanding record of resolving to repay his just debts, his ability and willingness to repay his debts. It is a reputation well deserved and hard earned.

It has resulted in the American farmer receiving very favorable interest rates historically and as a result of the efforts of the Farm Credit System, and the commercial lenders, we have had adequate credit available for them.

We are concerned that legislation of this variety and actions in this direction will adversely impact upon the perception of agriculture and its ability and willingness to meet its debts, and that in the end it will adversely affect all producers in terms of availability of credit and perhaps its cost or both, and that this language and this type of approach simply is not needed, nor is it appropriate for us to head in this direction.

Senator HAWKINS. I would also like to tell you that in the banking hearings there was compelling evidence that some banks are trying to cover their losses with foreign countries, which may not have been as secure, as a domestic loan, and it brought to my mind the amount of money we loan to foreign countries through the CCC.

I know that's not your division, but are the losses that we anticipate in these loans, somehow related to farm loan rates?

Mr. NAYLOR. I do not have the precise current figures, and of course we have not worked through many of those. I think it is significant, though, that with the CCC lending to American producers this last year and coupled with Farmers Home lending, that our total USDA share of short-term lending went from about 3 percent of the market a little over 2 years ago, which had been the traditional level, to about 27 percent in 1982. That's of the total short-term funds loaned to American producers.

That was an all-time record high. There is an impression that we have not worked as strongly as we might with American producers, but I think the record shows quite the contrary. The Department has been very aggressive in its support. Secretary Block, being a farmer, and understanding farm problems, has provided the types of programs, including PIK, that have been necessary to move agriculture back on to the appropriate path to a strong recovery.

Senator HAWKINS. Thank you, Mr. Under Secretary.

Mr. Wilkinson, you know, the USDA was asked to study the Farm Credit System's access to financial markets where it raises its funds.

The outcome of the studies are important due to the rumors that are on the Hill that there may be an attempt to remove agency status from the Farm Credit System securities, an attempt, I'll tell you up front, I would oppose.

Could you tell us the findings of the study and the status of this proposal?

Mr. WILKINSON. Yes. This has been a very major item of concern to the Farm Credit System, because, as you so well know, this System does have to depend upon its ability to go to the money market for its securities.

Anything which would impinge upon that freedom would affect both the volume which farmers would be able to draw from the investing community, as well as the price, the interest rates, which they would have to repay.

In the 1983 budget bill, there was a proposal that either the agencies which would include the Farm Credit System and the housing institutions, such as Fannie Mae, should be brought under some kind of credit budget, or else there should be consideration given to the removal of some or all of the special attributes which are a part of the term "agency status."

This would be of grave concern, because there is no particular source of those attributes. They are a package of special authorities which grant these farm credit securities the opportunity to be purchased by commercial banks in unlimited quantities, in addition to the opportunity to go to the market without going through the Securities Exchange Commission, because, in essence, that's the role of the Farm Credit Administration, to regulate those securities and to approve them.

There are many other attributes in this package. Fortunately, the USDA did conduct its study. There were other studies also conducted, and as a result of this, and of support by many Members of both sides of our Congress, the issue does not now seem to be an issue, and this pleases us.

However, we believe that it will be one that we will have to watch carefully, but at the present time, Madam Chairman, we express appreciation to you and to your colleagues, to the USDA for its study and to many others who have, I think, enabled many people to understand the importance of the System having continued access to the money market.

Thank you for that very key question though.

Senator HAWKINS. Do you believe that the pending legislation requiring deferrals or moratoriums on FmHA loans is a responsible public policy?

Mr. WILKINSON. Well, I think Under Secretary Naylor has already reflected the stance of Farmers Home. I have spoken out rather aggressively, at least as far as our segment of the commercial lending institution goes, the Farm Credit System, disfavoring any kind of a moratorium concept. Primarily, my opposition arises from the additional cost which would be imposed upon the borrowers of the Farm Credit System and perhaps more seriously, I think, a moratorium might serve as an indication to the lenders of all categories that if this kind of a concept could be imposed upon a sector of the economy such as agriculture, perhaps those lenders should not stay with agriculture.

This bothers me greatly, because the needs of the farmers and ranchers and cooperatives of tomorrow will require every lender possible to serve them.

Any continuing concepts of moratorium would, I think, be detrimental in that cost.

Senator HAWKINS. Noting that the Farm Credit System uses variable interest rates we included in my reauthorization legislation a study of the use of the variable interest rates in Farmers Home Administration loans.

Do you think it may be feasible for FmHA to do that also?

Mr. WILKINSON. All I can say is that the very fortuitous authority to use variable interest rates in the Farm Credit System saved it, and I truly mean saved it, from many problems during these present years of high interest rates and agricultural economic distress.

We believe it is very appropriate for any cooperative system, where the borrowers do understand what their terms are, to have the ability of our lending institutions to go up with the market and then down with that market. It enables the borrowers to know and the lenders to reflect the actual rates that are pending at that particular time.

We favor a variable interest rate program.

Senator **HAWKINS**. Thank you.

Thank you, the entire panel. We appreciate your coming here.

I would like to insert in the record a letter written to me from the Farm Credit Administration which explains in depth the Farm Credit Administration policy on forebearance, signed by you, Governor Wilkinson. I would like to put that in the record for all to read.

[The letter referred to reads as follows:]

FARM CREDIT ADMINISTRATION,
Washington, D.C., March 4, 1983.

Hon. PAULA HAWKINS,
Senate Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR SENATOR HAWKINS: As all of us are painfully aware, American agriculture is today experiencing its worst financial pressure since the 1930s. Suffering farmers are caught in the squeeze between too many consecutive years of poor prices and rising production costs.

The Federal Farm Credit Board, in its February meeting, expressed deep concern over present conditions and reaffirmed the commitment of the Farm Credit System to a policy of forbearance—that is, sticking with a borrower as long as there appears to be any reasonable possibility of working out of financial difficulty. The Board emphasized the need for appropriate loan servicing that will benefit borrowers with such prospects who are cooperating and are making an honest effort, despite adverse circumstances beyond their control, to meet the obligations of their loan contracts.

In the statement that the Board has adopted—a copy of which is attached—it also noted that "foreclosure or such other drastic action is to be avoided unless and until there is no reasonable course of action remaining." Fortunately, the management ability and financial position of the vast majority of the System's borrowers are such that decisions leading ultimately to foreclosures must be made in only a very small number of cases, especially when compared to the total number of borrowers. In calendar year 1982, Federal land banks (FLBs), with 667,000 loans outstanding, took actions resulting in 385 foreclosure auctions nationwide. Production credit associations (PCAs), with 378,000 members with loans outstanding, took actions that resulted in 870 farm foreclosure auctions nationwide. This means that, even under continued bad conditions, less than 12 one-hundredths of 1 percent (0.11998 percent) of the more than 1 million Farm Credit System loans outstanding were foreclosed through auction sales last year.

Let me assure you that the banks and associations of the Farm Credit System view foreclosure as a last resort only, and that we at FCA will continue to encourage them, through our supervision and examination, to go that extra mile with hard-pressed borrowers by exercising forbearance. Simply stated, forbearance means considering, on a case-by-case basis, whether to renew, reschedule, defer payment, reamortize, or otherwise continue credit for borrowers who have reasonable prospects for financial recovery. Unfortunately, we do not have data to measure the number of such actions that have been taken. But we know there have been large numbers, and the need for this kind of servicing is further evidence of current financial difficulties.

Of course, Farm Credit System institutions are private borrower-owned cooperatives that obtain loan funds through the sale of securities. Therefore, we must also be conscious of the need to maintain the financial soundness upon which rests the good reputation that Farm Credit securities currently enjoy among investors in the financial market. For that reason, we cannot permit excessive levels of losses to develop without jeopardizing the financial access of all borrowers.

It must be recognized, too, that there are situations where no reasonable prospect for recovery exists, where continuation of credit will only increase losses to the farmer and to the lending institutions. In most cases, farmers recognize this and make adjustments in their operations, including, in some cases, liquidation of assets to reduce indebtedness to a more manageable level and to protect their remaining equity. Such actions are still more evidence of farm distress. Because both voluntary actions of this kind and formal servicings by the FCS occur prior to a foreclosure auction, our foreclosure data (quoted above) measure only the most severe of the cases in distress. We wanted you to know that our efforts are focused on avoiding such actions in every possible way.

As you know, the Farm Credit Administration is an independent Federal agency responsible for supervising, regulating, and examining System activities. If at any time we can be helpful to you in answering questions you might have about the status of the Farm Credit System and its borrowers, please do not hesitate to contact us. We always appreciate the opportunity to be of assistance.

Sincerely,

DONALD E. WILKINSON,
Governor.

Attachment.

FEDERAL FARM CREDIT BOARD—STATEMENT ON LENDING UNDER STRESS CONDITIONS

Recognizing the current plight of the Nation's farmers in which they have experienced declining prices in the face of mounting operating costs, the Federal Farm Credit Board pledges the fullest support of the cooperative Farm Credit System in doing what it can to assist hardpressed member-borrowers while continuing to carry out the intent of Congress by maintaining a viable credit delivery system. The Federal Farm Board reaffirms the System's long-standing policy of forbearance—that is, sticking with a borrower so long as there appears to be a reasonable possibility for him to work out of financial difficulties and reestablish a fully viable farm business. In so doing, System institutions must be prepared to require that adjustments be made or disciplines exercised to help assure the borrower's ultimate recovery. Foreclosure or other such drastic action is to be avoided unless and until there is no reasonable alternative course of action remaining.

In carrying out this policy, strong emphasis must be placed on appropriate loan servicing that will benefit the borrowers who are cooperative and making an honest effort to meet the conditions of the loan contract. It is recognized further by the Board that the desire to stay with farmers in difficulty must be balanced against the need to maintain the good reputation Farm Credit securities have in the financial market, thereby assuring the System's ability to raise loan funds. Since the Farm Credit System is a privately-owned institution, it has an obligation to all the farmers who own it to run a sound business and not put some borrowers in a position of subsidizing defaulting borrowers as a result of excessive interest and loan losses.

Thus, the Federal Farm Credit Board recognizes its obligation to protect the interest of the System borrowers—both present and future—as well as the interest of investors upon whom the System depends for loanable funds.

Mr. WILKINSON. May I do one more thing, Madam Chairman.

Senator HAWKINS. Yes, sir.

Mr. WILKINSON. Earlier, we did talk about that and the role of the Federal Board. And much to my surprise and pleasure, we have the Chairman of the Federal Farm Credit Board, who has come in and is visiting the hearing this morning, Mr. John Naill of Brinkley, Ark., with us.

With John I see a delegation of Farm Credit people from the State of Arkansas, representing both the land bank and the production credit associations. May I invite them to stand for the committee to recognize them?

Senator HAWKINS. Surely.

Mr. WILKINSON. Thank you.

Senator HAWKINS. Thank you for that. Last week in the banking hearings we had the president of the American Banking Association who also comes from Arkansas. I thought they were farmers. They're all bankers.

Thank you very much.

Other Senators do have statements for the record, and we will include them in the proper place in this record and leave the record open for any Senators who may have questions for the witnesses of the day.

The second panel we'll call today is Alan Tubbs, president, First Central State Bank in DeWitt, Iowa who is testifying on behalf of the American Bankers Association; Mary K. Thatcher, assistant director, national affairs division, American Farm Bureau Federation; Jim Miller, from the National Grange; and John S. Barr, who is testifying on behalf of the National Cotton Council.

We welcome you here today.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., May 26, 1983.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition and Forestry,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your letter concerning questions that were submitted from Senator Huddleston following the hearing on farm credit needs.

We have enclosed those questions along with my response on separate pages.

If we can be of further assistance in this matter, please contact us.

Sincerely,

FRANK W. NAYLOR, Jr.,
Under Secretary for Small Community and Rural Development.

Enclosures.

OPERATING LOAN FUNDS

Question. In the Farmers Home Administration Report, delivered on March 21 to the National Agricultural Credit Committee, in regard to operating loans, the Report states and I quote:

"It now appears that this amount ($1.5 billion) may be inadequate to meet the demand for the year. . . ."

S. 24 would provide an additional $200 million in operating loan funds. Does the Administration support that provision in view of the shortage of funds?

Answer. Shortage of Operating Loan for fiscal year 1983 has been eliminated by the Secretary's recent allocation to OL lending, under emergency authority, of $400 million originally designated for other purposes. The bill's authorization of $200 million to supplement funding of the OL program is therefore unnecessary.

ECONOMIC EMERGENCY LOAN PROGRAM

Question. Under the Agriculture Appropriations Act of fiscal year 1983, Congress mandated that the Farmers Home Administration make available $600 million in economic emergency loan guarantees. To date that program has not been implemented. Could you explain why that is the case?

Answer. Provision was made in the Agriculture Appropriations Act for fiscal year 1983 for $600 million of economic emergency loan guarantees. However, the authorization of an economic emergency loan program contained in Sec. 211 of the Emergency Agricultural Credit Adjustment Act of 1978 expired on September 30, 1982. Inasmuch as Congress did not extend that expiration date for authorization of the program, the provision made in the Appropriation Act is not subject to use.

RURAL DEVELOPMENT POLICY

Question. A key element in the Administration's Rural Development strategy is the Rural Enterprise Zone Program. Will the Secretary of Agriculture select the rural areas to be designated Rural Enterprise Zones; and how many jobs does the Administration expect to create with this program?

Answer. The Secretary of Agriculture will not designate the rural areas to be selected as enterprise zones. USDA is working with HUD to ensure the designation process will be suited to both urban and rural applicants.

The Treasury Department estimated in its analysis of the cost of the enterprise zone proposal that employment within the zones could be increased by as much as 10 percent. Exact figures concerning the actual number of new jobs created by enterprise zones are impossible to determine with any accuracy.

FMHA RURAL DEVELOPMENT PROGRAMS

Question. Some organizations interested in Farmers Home Administration programs have suggested removing the Agency's Rural Development and Housing programs and placing them in a separate Rural Development Agency. Would you comment on that idea?

Answer. This Administration is committed to the goal of making the Federal government more efficient and responsive to its citizens. Consolidation of related programs and activities is one way of accomplishing this goal, but where possible, the return of program control to the local and/or State level of government is even more efficient. As part of the Rural Development Strategy and its New Federalism initiative, the Administration has proposed a Rural Housing Block Grant program and some other modifications to the structure of Farmers Home Administration which does just that.

Lacking the details of any specific proposal for other changes, we cannot see how this suggestion would contribute to the President's goals.

JOINT FUNDING OF RURAL HEALTH FACILITIES

Question. Until January 1982, under an agreement between the Department of Agriculture and the Department of Health and Human Services, financing for the construction of certain rural health centers was provided through a combination of loan and grant programs administered by the Farmers Home Administration and the Department of Health and Human Services.

Recently, the Comptroller General issued an opinion stating that adequate legal authority does not exist to permit such joint financing for the construction of new rural health facilities.

To address this problem and facilitate the reactivation of joint financing, an amendment was included in the Orphan Drug Act that specifically allows community health center grant funds, provided by the Department of Health and Human Services, to be used to repay Farmers Home Administration loans issued for the construction of new facilities.

When will the joint financing of rural health projects be reactivated?

Answer. The Farmers Home Administration is now conferring with the Department of Health and Human Services on ways to amend and improve implementation of our Memorandum of Understanding to ensure that recipients of the assistance are likely to remain organizationally and financially viable.

WATER AND WASTE DISPOSAL FUNDS

Question. The Jobs Bill provides $150 million in water and waste disposal grant facility funds and $450 million in loan funds. Is the Farmers Home Administration prepared to obligate those additional funds?

Answer. Under emergency authority available to the Secretary, $225 million of loan funds and $75 million of grants added to rural water and waste disposal appropriations by the Jobs Bill have been diverted to make up for a critical shortage of Farm Operating loan funds for fiscal year 1983. However, original appropriations for the year plus Jobs Bill supplemental funds remaining leave $600 million available for water/waste loans and $200 million for grants. We believe these amounts will cover all projects that can be developed to the point of actually requiring funds by the end of this fiscal year on September 30, and that all funds will be obligated.

FMHA DEFERRALS

Question. I understand that the Administration estimates that 45 to 55 percent of the Farmers Home Administration's farm loan borrowers would qualify for a deferral under S. 24, the Emergency Agricultural Credit Act of 1983. In view of the fact that only 24 percent of FmHA's farm loan borrowers were delinquent in 1982 and assuming a similar figure in 1983, the Administration's estimate must be based on giving deferrals to borrowers who aren't even delinquent. Under S. 24, a borrower could get a deferral only if he is faced with imminent foreclosure. How did the Administration arrive at its estimate?

Answer. S. 24 mandates, at the request of the borrower, the deferral of principal and interest on outstanding farm loans, and provides for FmHA to forego foreclosure on any such loans when the borrower demonstrates good management practices and other criteria. The provision is limited to family-sized farms. The estimate reflected deferral being mandated at request of borrowers without FmHA discretionary authority. Programs delinquency varies during the year. On January 1, 1983, our records show a 52 percent delinquency in the five major farmer program loans combined. All loans have payments scheduled due on January 1 and report is with payments credited through January 31. Deferrals can be applied in loan making or servicing actions. S. 24 does not appear to require imminent foreclosure as a prerequisite to obtaining a deferral.

STATEMENT OF ALAN R. TUBBS, PRESIDENT, FIRST CENTRAL STATE BANK, DeWITT, IOWA, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. TUBBS. Thank you, Madam Chairman. We are pleased to be here, and we have submitted prepared testimony which we assume will go into the record, and I will summarize that.[1]

I am Alan R. Tubbs, president of the First Central State Bank of DeWitt, Iowa. I am testifying today in my capacity as a member of the executive committee of the agricultural bankers division of the ABA, and of the government relations council of the ABA.

Now, our association consists of more than 13,000 full-service banks, over 90 percent of the American banking community.

While our members range in size from the very small to the very largest banks, approximately 90 percent of them have assets of less than $100 million.

Two-thirds of the Nation's full-service banks are in communities of less than 25,000 people. In fact, half of these banks are in towns of less than 5,000 people.

According to the latest estimates, nearly 60 percent of these banks list agriculture as the single most important source of income for their communities.

We appreciate this opportunity to present the association's views on a number of issues related to agriculture, finance, and lending programs of the Farmers Home Administration and how these programs would be affected by legislation now under consideration in Congress.

The banking industry is deeply concerned about the economic problems of American agriculture. Bankers work closely with farm families in the management of their financial affairs and are quite aware of the financial difficulties that many farmers are facing today.

Many agriculture related businesses in rural America which provide products and services to farm families are also suffering as a result of financial problems.

We believe the best approach for assisting these customers is for banks and other agricultural lenders to work in partnership with regulators, customers, and others to arrive at acceptable solutions. Forebearance and cooperation until the economy improves are the keys to overcoming this economic crisis.

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[1] See p. 43 for the prepared statement of Mr. Tubbs.

We believe it is important for Congress to place a high priority on a full evaluation of the current problems within the agricultural sector. We think the following concepts should be considered in such an evalution: The basic problem is an unfavorable income-cost relationship, not inadequate credit. Credit is plentiful.

The problem is limited to certain producers and agribusinesses. The financial position of individual farms and their ability to survive these times varies greatly. There are legitimate needs for special Government programs to delineate the problem. However, such programs should not be designed to eliminate the right of a poorly managed business to fail.

Government programs for farmers should at all times focus on the long-range well-being of the country and the problems of the farm sector while immediate needs should be addressed with limited temporary programs.

Madam Chairman, over the years the American farmer has become the most productive and efficient producer of any agriculture products in the world. Two out of every five acres of U.S. cropland were harvested for export.

As a result of overproduction and weakened export demand, the supply of most major grains, milk products, and other agricultural commodities in the United States are at excessive record levels, the source of our problems.

The payment-in-kind program will, hopefully, help correct this overproduction problem in 1983 and if continued, hopefully, some improvement again in 1984.

However, more than PIK will be needed to get supply and demand back into proper perspective.

Development and expansion of agricultural commodity markets both domestically and abroad are of major importance to bring supplies down and keep them at acceptable levels.

Our association supports the PIK program. It will be beneficial in reducing the need for farm operating loans while reducing risk this year and maintaining farm income at near previous levels.

More specific to the Farmers Home Administration programs that we're talking about in this legislation, we agree that the operation of the Farmers Home should be periodically examined in relation to the whole structure of this country's financial institutions and the credit needs of the agricultural sector.

Of the major public agencies that lend to farmers, the Farmers Home Administration is the largest and most important in terms of reflecting the credit policies of the Department of Agriculture.

In 1981 the Farmers Home Administration portfolio was nearly 50 times its size in 1960. In the last 6 years its share of total farm indebtedness has risen to 14 percent from 4 percent.

Federal credit activity does involve some degree of subsidy. In essence, subsidy is granted when a borrower obtains funds at an interest rate lower than would have been paid for a comparable private sector loan. We believe the insured loan program of the Farmers Home Administration is more dependent on Government funding and commands more of a subsidy than does the guaranteed loan program where the loan funds are provided by private lenders.

Therefore, we believe more of each year's appropriations should be used for loan guarantees. The various bills under consideration would increase Farmers Home insured operating loan limits from $100,000 to as much as $300,000 and guarantee authority from $200,000 to $400,000.

We believe the change is needed which will assure the Farmers Home programs are useful to the average farm family and that adequate loan levels are available to meet their needs. It is essential that financing under these programs provide for the credit needs of economical farm units which provide a reasonable living wage for farm family and sufficient cash flow to handle increasing levels of cost and servicing of debt.

In light of this, we believe an increase in the insured limit to $200,000 and of the guaranteed limit to $300,000 would be sufficient.

Regarding limited resource farmers, the Farmers Home Administration makes loans to help low-income farmers and ranchers who live on small family farms improve their farming and earn a better living.

These loans are made on easier loans than ordinary loans and are intended to give the limited resource farmer a chance to become successful in farming.

We recognize the limited resource program has enabled the Farmers Home Administration to serve many farmers who previously could not qualify for any form of Farmers Home credit or other farm credit; however, we oppose the concept of mandating that certain amounts of program funding levels be used for limited resource loans.

We accept the guideline presently in use by the administration wherein 20 percent of the program's funding has been targeted to limited resource loans.

Mandated levels could bring pressure on loan officials to approve loans of much poorer quality, to higher risk applicants, in an attempt to meet these quotas.

We believe that realistic and unsubsidized interest rates are in the best interests of farmers. We recommend that interest rates on all insured loans, except in unusual and limited cases, such as to beginning farmers who cannot pay the rate, be based on the cost of money to the Treasury, plus a reasonable charge for administration.

The continuing high and volatile levels of interest are of course at the heart of the present economic difficulties. Bankers are extending their resources to carry existing borrowers as much as is economically prudent.

In light of this, we applaud the efforts that the Farmers Home has made in consolidating and rescheduling their loans.

However, we oppose the concept of increasing the period over which loans can be rescheduled and reamortized from 7 to 15 years. We believe the period over which the repayment of loans is spread could be tied with the useful life of the collateral securing the loan. In many cases, the useful life of the collateral securing farm loan is not 7 years and in very few cases would extend beyond 7 years.

We do not support the designation of individual disaster assistance for farmers suffering production losses. We believe an insurance program, such as the Federal crop insurance program, is a much better method of assisting borrowers who have experienced production losses due to natural disasters.

Farmers need to recoup income when disasters occur, and not take on additional debt.

We believe that individual designations will tend to discourage the utilization of Federal all risk crop insurance or similar insurance programs.

Our association supports the proposal contained in the bills being considered which will authorize the agency to make available certain emergency disaster borrowers annual operating credit through fiscal year 1984.

However, this should be done for only those borrowers who cannot get credit elsewhere at a reasonable price.

On loan deferrals under existing law, the Secretary of Agriculture already has discretionary authority to forego foreclosure and defer payments.

Even though 1981 was the third straight year of low farm income, the Farmers Home Administration was able to stay with over 97 percent of its borrowers.

Many of the bills would enact into law the guidelines Farmers Home is presently using to determine whether loan deferral should be granted to a borrower.

However, these bills contain provisions which would almost require the agency to have an open door policy regarding loan deferrals leading to blanket moratorium for all borrowers. The ABA opposes these proposals.

First, the administration has identified a good set of criteria to use in making determination for loan deferrals on a case-by-case basis. Putting this into law would limit the flexibility of the agency to consider requests for loan deferrals from customers for reasons other than permitted by law.

Second, it would be impossible for Farmers Home to administer a program which requires the agency to notify all existing borrowers of how they may receive loan deferrals especially when the burden of justifying whether the deferral is granted is required of the agency.

And third, we oppose provisions regarding blanket moratorium on foreclosures and mandatory deferral of payments for borrowers from either the public sector or the private sector.

Madam Chairman, we like the emphasis placed on the guaranteed loan program which will make it possible for private lenders to handle a fair share of the credits temporarily not bankable. We think that we can do this with our supervision and save the Farmers Home some supervisory costs and responsibilities.

In collaboration with Government agencies, the creation of a certified lenders program might prove to be more efficient, and we have discussed this with Frank and other people in the Farmers Home. And this is something we're investigating.

In summary, we believe that our legislative recommendations are appropriate and necessary. As active participants in the rural economy, we offer our continued support and cooperation to these family farm and rural community programs. The ABA is grateful for the opportunity to express its views. We look forward to working with you and other members of this committee as you seek ways to improve the credit programs for farm families.

And, I will be happy to answer any questions relating to my comments or regarding the current situation as it actually exists in financing farms today.

Senator HAWKINS. Thank you, Mr. Tubbs.

We will take a 10-minute break while I go vote.

[Whereupon, a short recess was taken.]

Senator HAWKINS. Ms. Thatcher.

STATEMENT OF MARY KAY THATCHER, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

Ms. THATCHER. Madam Chairman, Farm Bureau appreciates the opportunity to present our testimony this morning.[1] Before I talk about any of the agricultural bills that have been introduced so far, I would like to make just a few observations about the Farmers Home Administration in general.

FmHA was originally created for one purpose, to make loans to depression stricken farm families. Today, although FmHA still aids family farmers, its resources are not concentrated on aiding family farmers, because its programs have become so highly diversified.

Programs which require not only funds, but time and effort of FmHA personnel include homeownership loans, housing loans, mutual self-help housing, water and waste disposal, energy impact assistance, and so forth.

These programs all draw the time that FmHA personnel, at the National, State, and local levels, would otherwise have to spend on the agricultural credit programs, those programs which FmHA was established to address.

Our point is simple: Farmers could be aided much more if FmHA did not have to spend so much time and money on all the non-farm programs presently administered by FmHA.

An example of this is the recent discussion one of our State farm bureau presidents had with his country FmHA personnel. He complained of the long periods of time farmers had to wait before hearing from FmHA about their loan applications.

The farmer pointed out that forcing a farmer to wait until mid-April to see if his operating loan would be approved was too late in the year. He was told that one of the biggest time constraints was the fact that at least 2 days each week were spent on housing loans.

Farm Bureau is concerned about many of the bills introduced this session which deal with FmHA, mainly because of provisions regarding moratoriums on foreclosures and mandatory deferral of payment on principal and interest.

The Secretary of Agriculture already has discretionary authority to forego foreclosure and defer payments. Even though 1982 was the third straight year of low farm income, FmHA was able to stay with over 97 percent of its farm borrowers.

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[1] See p. 53 for the prepared statement of Ms. Thatcher.

On the other side of the coin, foreclosure was undertaken in 844 cases during fiscal year 1982, about three-tenths of 1 percent of the borrowers.

Farm Bureau opposes the deferral of payments provision because many Farmers Home borrowers can make their payments on time but with a mandatory deferral provision, would probably choose to wait until the end of the deferral period and use the money elsewhere until that time.

The Department of Agriculture estimates that the additional deferrals would cost the Government between $1.4 and $1.6 billion. In addition, the deferral provision is unfair to borrowers who use sources of credit other than FmHA, approximately 88 percent of the agricultural borrowers, and would have to continue to make timely payments.

Because S. 24, the Emergency Agricultural Credit Act of 1983 has been reported out by the full committee, I will focus the rest of my comments on the provisions of that bill. However, I would be happy to answer any questions regarding our position on other bills which have been introduced.

Let me reiterate, our principal concern in S. 24 or any other FmHA legislation is the provision dealing with moratorium and deferral of payment.

The Farm Bureau also opposes the inclusion of the following provisions:

No. 1, $200 million in additional funding for fiscal year 1983 for the operating loan program; second, increasing the insured operating loan limit from $100,000 to $300,000. While we agree the current limits are too low with respect to current financial requirements, we instead recommend increasing the limit to $200,000.

Our concern focuses on the fact that if the limit is raised to $300,000, FmHA will be serving fewer borrowers with more money.

And third, S. 24 requires that the interest rate on loans deferred, consolidated, rescheduled, or reamortized not exceed the interest rate on the original loan. We oppose this concept because of the cost involved and the unfairness to those producers who rely on the market for the money they borrow.

We recommend, instead, that the interest rates be variable to reflect the market conditions over the term of the loan.

We do support provisions in the bill calling for discretionary rather than mandatory use of the economic emergency program, and the requirement that at least 20 percent of the operating and ownership loan funds be designated for limited resource borrowing.

Once again, we appreciate the opportunity to be here.

Senator HAWKINS. Thank you.

I would like the record to show that Senator Boren has joined us. And before Mr. Miller testifies, do you have a statement?

Senator BOREN. I would like to submit a statement for the record later to conserve time.[1] I apologize. I was tied up on the Senate floor earlier. I'm just going to be able to drop in briefly, but I'm very interested, as you know, in this particular issue, and I appreciate the testimony that's been given today.

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[1] See p. 41 for the prepared statement of Senator Boren.

Senator HAWKINS. It's been very interesting, and I recommend it as good reading.

Senator BOREN. I will. Thank you.

Senator HAWKINS. Mr. Miller?

STATEMENT OF JAMES MILLER, REPRESENTING THE NATIONAL GRANGE

Mr. MILLER. Thank you, Madam Chairman.

On behalf of the National Grange, we would like to submit for the record our statement, but let me just summarize very briefly a couple of points that we make, and then I would like to address a couple of items that are in reference to the Farmers Home Administration reauthorization bill which you submitted.[1]

The National Grange has consistently been a supporter of the Farmers Home Administration concept for years, but we, too, have noted problems that have resulted from the disparity, or the wide variety of the programs that are to be administered in the Farmers Home Administration.

For that purpose, serving the family farmer, the attention, has, in fact, been drawn away from the needs of that family farmer, that beginning farmer, that distressed farmer that is in a situation that really needs the credit and needs the advice. They haven't been able to get it, at least not in timely sense, nor have they been able to receive the proper advice and counsel prior to granting the loan.

For that purpose we would oppose any effort to further expand the Farmers Home Administration's variety of programs. We would like to see, instead, a concentration of Farmers Home activities on servicing the borrowers that are out there, keeping those Farmers Home programs open to those who qualify and those who need the loan assistance.

Our recommendation included in our statement would be to put together a very informal task force, consisting of Farmers Home Administration county supervisors, some borrowers, some county committeemen, and other Farm Credit individuals to take a look at the overall situation out there in the Farmers Home Administration, and, furthermore, to take a look at those policies that guide the lending decisions, those policies that guide the criteria for denial or scrutiny of those applications, and other items that are of concern to affecting the way that the county offices are run, and the relationship that those county offices have with their State office and the Federal office here in town.

We think that there could be some very good things come out of that. First off, it would answer a lot of questions that have come up about Farmers Home over the last 3 years, during the time that the farming situation has been so dire.

We also think that it would dispel some of the misinformation that has been circulating, too, about the disparity of, how directives from the Washington office are transmitted to State and local offices as well.

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[1] See p. 88 for the statement of the National Grange in a letter from Edward Andersen, Master, to Senator Hawkins.

We think there are good things going on out there in the Farmers Home Administration. We, too, are concerned about the time delays that are taking place to get decisions on loan applications. But we have seen some improvement in that regard.

The National Grange would like to see the overall lending authority for farm operating loans be expanded but we are opposed to raising the individual borrowing limits. We think that in order to maintain the focus of Farmers Home Administration on that purpose to which it was organized, would be to keep those lending limits at a reasonable level, or the Farmers Home Administration may turn into a lender of last resort for much larger beginning and much larger operations than that which it was designed to do.

The National Grange would, in all likelihood, support the proposal in your bill, Senator Hawkins, that would establish a recapture provision. We think it's an interesting concept, and we think it has merit.

One or two items need to be clarified, and that's in the event that a borrower does purchase real estate with a Farmers Home loan, would there be, in fact, a lien against that property for the period of time that that farmer owns it. How would that be administered, and there are some questions there that we have that probably could be answered to our satisfaction, we could support that.

We also would support the review of the borrower's status as well, because we think that it's important that Farmers Home borrowers be graduated to conventional lending sources as soon as possible, and in as direct a manner as possible.

I'll end my remarks there and be happy to answer any questions.

Senator **Hawkins**. Thank you for your testimony and for helping us today.

Mr. Barr, the National Cotton Council.

STATEMENT OF JOHN S. BARR III, CHAIRMAN, PRODUCER STEERING COMMITTEE, NATIONAL COTTON COUNCIL

Mr. **Barr**. Thank you. My name is John Barr. I'm a cotton producer from Oak Ridge, La., and I currently serve as chairman of the Cotton Producer Steering Committee of the National Cotton Council on whose behalf I appear today.

In the interest of time I'm just going to go ahead and read my statement, which is quite short, because I've been accused of taking longer when I try to summarize.

The National Cotton Council, as you know, is the central organization of the U.S. raw cotton industry, representing cotton producers, ginners, warehousemen, merchants, cooperatives, cottonseed processors, and textile manufacturers from California to the Carolinas.

We appreciate very much the opportunity to share with you our views concerning the credit situation facing agriculture today.

For many in agriculture, including cotton, the situation is critical. Larger than expected crops, combined with weak demand in the midst of a global recession, have resulted in mounting surpluses and continued low commodity prices.

Our own industry has been especially hard hit by the effects of the recession. Last year, for example, U.S. mill consumption of cotton fell to a post World War II low of just 5.3 million bales, and is expected to improve only marginally this year.

Exports are also down considerably this year, reflecting the twin effects of the recession and the relative strength of the dollar which has made it difficult for cotton to compete in world markets.

At the same time, due to record yields across the belt, cotton production in 1982 was much greater than anticipated. The net result is that carry-over stocks are expected to rise to 8.4 million bales or more at the end of this season--the highest level since 1967, and three times higher than just 2 years ago.

Faced with low commodity prices and continued high production costs, many cotton producers today are under severe economic stress. Because of their reduced cash flow, the question of adequate financing has become a very serious concern.

This concern, however, is not limited to producers. Other segments of our industry are also very interested in the availability of credit.

In order to identify these needs and develop specific recommendations, the National Cotton Council recently established a special task force on credit. This 11-member task force includes representatives from a cross section of the cotton industry.

They attended our annual meeting in Phoenix, Ariz., in February and adopted the following recommendation. Strongly support efforts to strengthen the Farm Credit System, the Farmers Home Administration, the Small Business Administration, and other lenders to agriculture and agribusiness to insure that the credit needs of the cotton industry are adequately met at lowest possible interest rates and the industry's vital infrastructure is maintained while supply is being adjusted through the Federal payment-in-kind program.

This recommendation was adopted unanimously by our board of directors, and in turn unanimously by our delegate body.

The credit policy of the National Cotton Council reflects two very basic concerns: First is the need to provide adequate credit at reasonable terms and conditions for the production of food and fiber and to help alleviate the financial stress many producers are now experiencing.

Second, any restructing of credit policies and programs should include recognition of the critical importance of maintaining the industry's vital processing and handling segments while the payment-in-kind program is in effect.

We, of course, are strongly supportive of the PIK program as announced by the administration. At the same time, however, we recognize that there may be some related industry segments, including cotton gins, warehouses, and cottonseed crushers who will be adversely affected.

Clearly, there is an overwhelming need to bring cotton supplies into better balance with demand. During this difficult period of adjustment, however, every effort must be made to avoid major disruptions. We believe it may be necessary, therefore, to provide loan guarantees or other assistance to help these industry segments with their interim financing.

In doing so, this will insure that they will be in place and able to process and handle anticipated increased production once the farm economy fully recovers.

The administration, we believe, is making every effort to meet the credit needs of agriculture. We have been pleased by these efforts and the Secretary's actions in directing the Farmers Home Administration to work closely with local banks, production credit associations, and other private lenders to assist producers.

However, if the Farmers Home Administration is to be able to continue to meet the credit needs of agriculture, additional flexibility in its various loan programs may be necessary.

For this reason, we were encouraged by the Senate Agriculture Committee's recent action.

Many of the provisions contained in S. 24, including increasing the existing limits on FmHA direct and guaranteed operating loans to $300,000 and $400,000, respectively and extending from 7 to 15 years the time allowed for rescheduling, reamortizing, or consolidating existing loans, among other changes, have long been urged by our industry as necessary for a more effective lending program under FmHA.

Enactment of these provisions would allow FmHA to continue to work with individual borrowers in an effort to better meet credit needs. By doing so, we believe these changes will also enhance the likelihood that such loans, including principal and interest, will be repaid in full.

We are also encouraged to see that you have recently introduced a separate bill providing reauthorization of the Farmers Home Administration for 3 years. We would only urge that authorized levels of funding be no less than that contained in the President's budget request.

As we indicated earlier, there is an urgent need for this legislation. For this reason, we hope this subcommittee and the Congress will move forward as rapidly as possible with legislation that can be signed into law to insure that agriculture's, including cotton's, credit needs will be met in 1983 and beyond.

Thank you, and I appreciate the opportunity for making this statement, and I will be glad to answer any questions.

Senator HAWKINS. Thank you, very much.

I think we've gotten a lot of answers to many of my questions in all of your testimony. I appreciate it very much.

Ms. Thatcher, my reauthorization bill, S.765,[1] calls for USDA to study the feasibility of using variable interest rates. Do you support that study?

Ms. THATCHER. Yes. The Farm Bureau would support that study. In fact, we would support implementation as soon as possible, whether it calls for a phase in period, or something, of variable interest rates even without a study.

Senator HAWKINS. Do you have any suggestions on how we could improve the loan servicing by Farmers Home personnel, both you, Mr. Miller, and Ms. Thatcher, had criticisms of the time lag.

Ms. THATCHER. One of our concerns is that at the present time the local Farmers Home people at the county levels have to service about twice as many loans as someone in a private bank or someone from the Farm Credit System would.

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[1] See p. 144 for a reprint of S. 765.

And because of this and because of the time that is spent on the nonfarm programs, we're afraid that they really don't have the time to get the job, especially the operating loan program funding done in time to really aid these people.

Our biggest complaint from our members out in the country last year was that they had to wait in lines forever, and their county people said I'm sorry, but we just can't give you an answer in enough time for you to really plan on your operating loan needs this year.

So I think that we would support additional staffing at the local level for Farmers Home.

Senator **Hawkins**. Mr. Miller, in your opinion, has the easy credit era of the late seventies contributed to the problem that farmers are facing today?

Mr. **Miller**. I think unquestionably it has. There were a number of things that did occur that were done in hopes of enhancing the family farmer's ability to maintain a viable operation during tough times. And during good times as well.

But, as with a lot of good intentions, a lot of time they lead to points you're not really too crazy about going to. It's for this reason as well that we see problems with raising the individual loan rates.

We see it almost as another step toward cheaper and easier credit. I'm not making the point that there isn't a need for reduced interest lending programs to certain limited resource borrowers. We support the limited resource program, and we would like to see that program expanded.

But at the same time good, effective targeted credit programs for those who are in need, accompanied by the necessary supervision, and I agree with Ms. Thatcher and the Farm Bureau here, that much more supervision and much more time has to be spent on these loans, both before they're made and after they're made to give the proper guidance and supervision that they require.

These are enormous amounts of money, and they can't be treated in a cavalier fashion.

Senator **Hawkins**. What effect will the implementation of PIK have on the credit needs of farmers in your opinion who are going to participate in it?

Mr. **Miller**. Oh, I think implementation of PIK is going to have a very good impact on the overall farm picture. I think the attitudes of farmers has improved dramatically and I'm not really sure if it, the improvement in the attitudes of the farmers is the result of the implementation of the PIK program as much as it is improvement in the attitudes of the farmers' bankers.

If the farmers' bankers are feeling good about the prospects of agriculture, then I think farmers can breath a little easier too.

Senator **Hawkins**. Mr. Barr, how do you feel about placing a cap on the emergency loan program?

Mr. **Barr**. Well, I think you have to address that in the context of what else is available. There is no question but that you can't go on indefinitely with an emergency loan program with no cap.

On the other hand, the possibility of requiring crop insurance as a condition for loan eligibility, and the fact that there is some other assistance out there, you could probably get by with a low cap.

Senator HAWKINS. Mr. Tubbs, do you support a loan deferral?

Mr. TUBBS. The Farmers Home Administration right now has, we believe, all the authority that they need to handle loan deferrals on a case-by-case basis. An across-the-board loan deferral would come very close to a moratorium on foreclosure, and it would be detrimental to not only Farmers Home Administration lending, but to lenders in total.

So we believe that the Farmers Home has all the flexibility they need in the current authorities to handle deferrals and we know that they are doing that.

Senator HAWKINS. Ms. Thatcher?

Ms. THATCHER. No. We don't support the deferral. Farm Bureau does not support any provision dealing with deferrals or moratoriums other than what is in the present law.

Senator HAWKINS. Mr. Miller.

Mr. MILLER. The National Grange does not support a blanket deferral for basically the same reasons that have been expressed today, and that is the fact that it would do a disservice to those who are using alternative credit sources other than Farmers Home.

Senator HAWKINS. Mr. Barr.

Mr. BARR. I'll take a little different approach on that, in that the problem with deferral is it's as controversial within our organization as it is within your Congress, and we don't address that specifically.

We think that the discretionary authority for deferral is already there, and I think we would suggest that since it is such a controversial item that it might be well to address it completely separately rather than take up all of the necessary time to address it within this particular legislation. Our feeling is that speed is of the essence in getting something out into the country that will work. And if deferral is the thing that is holding that up, I think we would prefer to see it addressed separately.

Senator HAWKINS. Mr. Barr, in your testimony, you indicated great concern over the effect the farm recession has had on what you call related industries?

Mr. BARR. Yes, ma'am.

Senator HAWKINS. You also indicated there should be some loan guarantee or other assistance to help those industry segments with their financing.

In my bill, S. 765, I include what we call rural enterprise approach to the business industrial program that tightens credit requirements, and it requires an emphasis on job creation.

Do you think under these terms the B&I program could be a value to rural communities as well?

Mr. BARR. Well, the requirement of creating jobs, I don't think, is quite applicable. Our particular concern relates to the impact of PIK which, for related industries, will result in reduced volume and economic activity.

We think the PIK program is going to be a 2-year program. Therefore, these particular industries will likely experience reduced volume for at least that long. We think attention should be given to their possible need to go to FmHA or to some other lender and to be able to secure interim financing during this period. Obviously, there will not be any new jobs created with less volume of product. But with this interim financing, some jobs may be preserved.

Senator HAWKINS. Thank you.

Senator Zorinsky has joined us. Do you have any questions?

Senator ZORINSKY. You just made a comment, sir, on the PIK program. How do you say it's going to be a 2-year program? Has there been any confirmation of that? Has the USDA or Jack Block——

Mr. BARR. Only by inference.

Senator ZORINSKY. Only by inference. Because I have been trying to find out, too. It makes a big difference, especially to hybrid seed companies, in their planning for the future.

Our concern is that we'll always find out too late.

Madam Chairman, you haven't heard whether it's a 2-year program or a 1-year program?

Senator HAWKINS. No. I don't believe we have that answer in the record.

The assumption is it would take a year to talk about it and a year to act on it.

Mr. BARR. My assumptions are only mine, and they deal primarily with playing with the numbers pertaining to what we think is a desirable carryover in cotton; the fact that we're up to 8.4 million bales right now; and recognizing that even though we do have excellent participation in the program this year, it will take 2 years of that kind of participation to get back to a desirable carryover.

Senator ZORINSKY. Thank you.

Senator HAWKINS. Committee staff informs me that there has been no decision made, but obviously your observations may help us come to a conclusion.

Senator Zorinsky, do you have any questions for any of this panel?

Senator ZORINSKY. No, Madam Chairman.

Senator HAWKINS. All right. We'll excuse this panel at this time. We have left the record open for any Senators that do have statements or questions until the conclusion of the day.

Senator Leahy and Senator Cochran, as I already have stated, have statements for the record.[1]

I would like to call our last panel, Robert Doyle, counsel for the Water Quality Association, and Norman DeWeaver, representing the Task Force on Rural Water and Sewer Program Reform.

Do you all have seats? Mr. Doyle has brought with him today John Hall and Bruce Workman, members of the board of directors of the Water Quality Association.

I used to work with Mr. Workman in Florida. We particularly welcome you here today.

Mr. Doyle, I would call on your first.

Mr. DOYLE. Mr. Hall.

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[1] See p. 40 for the prepared statement of Senator Leahy and p. 39 for the prepared statement of Senator Cochran.

STATEMENT OF JOHN HALL AND BRUCE WORKMAN, MEMBERS, BOARD OF DIRECTORS, WATER QUALITY ASSOCIATION, AND ROBERT DOYLE, COUNSEL

Mr. **Hall**. My name is John Hall.

The Water Quality Association appreciates this opportunity to comment on S. 765, a bill to amend the Consolidated Farm and Rural Development Act to reauthorize the Farmers Home Administration for each of the fiscal years, 1984, 1985, and 1986.

I am chairman of our Water Quality Association's rural water task force and a member of our association's board of directors, as well as president of a franchised water improvement equipment company.

With me are Bruce Workman, also a member of the association's board of directors, and a water improvement equipment businessman from Winter Haven, Fla. Accompanying us is Robert Doyle, Washington, D.C., our counsel.

Senator **Hawkins**. You brought your lawyer, I see.

Mr. **Hall**. We're at these hearings today on the same issue at which we testified at length last year: In support of that provision of S. 765 which would require the Agriculture Secretary to conduct a study and report the findings thereof respecting the practicality and the cost effectiveness of providing individual onsite water treatment systems in rural areas rather than central or community systems.

To conserve the committee's time, we will not repeat that testimony at this time, but respectfully request that it be included in the transcript of this year's hearings.

For convenience, it, along with supporting documentation, is set forth in the balance of our statement today.[1]

In its report of May 26, 1982 (S. Rept. 97-422), the committee, at page 11, expressed its belief that there should be adequate review of the alternative onsite versus central water treatment systems in rural areas, and the committee noted particular interest in whether the use of systems other than those traditionally granted assistance by FmHA would be beneficial to borrowers and provide better use of limited loan funds.

This is precisely the point of our position. We can only add that this study should aid in identifying areas for improvement in the FmHA program and facilitate reduction in Government expenditures.

It is our judgment that the time is overdue for some provision to be made requiring the FmHA to investigate, study, and seriously consider benefits in relation to costs—particularly in the light of limited resources and expanding national deficits; to act so as to maximize efficiency; to explore the existence and utility of all available alternative approaches to its objectives; and, to adopt the one producing the maximum benefit and the minimum societal burden.

We are extremely grateful for the action last year of committee support for the provision requiring the study of alternative water treatment systems, and we urge passage of the provision in this year's legislation.

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[1] See p. 56 for the prepared statement of Mr. Hall.

If there are any questions, we would be happy to respond.

Thank you for permitting us the opportunity to appear again this year in support of a study provision which makes such good sense.

Senator HAWKINS. Thank you. I would ask Mr. DeWeaver at this time to give his testimony.

STATEMENT OF NORMAN DeWEAVER, TASK FORCE ON RURAL WATER-SEWER PROGRAM REFORM

Mr. DEWEAVER. Thank you, very much, Madam Chairman. We appreciate the opportunity to testify again with regard to the water and waste disposal loan and grant programs of the Farmers Home Administration.

We particularly appreciate the fact that you've called hearings which are broad enough in scope to encompass the needs for community facility credit as well as the very important needs for farm credit in rural America.

We have submitted a prepared statement for the record,[1] and will not go through it at this time, but I will summarize it very briefly by pointing out that since the committee's hearings last year, a number of things have changed which we think makes legislative reform of this program much more urgent.

The water and waste disposal grant program has been used, by and large, to simply write down the interest cost of what are supposedly market rate loans for the water and waste disposal loan program.

We submit that that's not a use of grant money that was intended by the Congress and that reform is necessary in both the interest rate provisions and in the use of grant funds.

Second, the Farmers Home Administration has recently published new regulations which restrict access to all grant funds to communities with income levels at 85 percent or below the statewide nonmetropolitan medium family income.

This unduly restricts any access to the grant program and has, in effect, sawed off the limb that Farmers Home is sitting on in terms of their loan program, in that they use much of the grant money to write down interest rates on what are supposedly market rate loans.

We would also submit that there has been very little real progress in effectively concentrating funds in those communities that need assistance most based upon their low ability to pay, and based upon the small population size.

We very much appreciate the initiative in your bill of reintroducing the provision which passed the committee last year and has also been adopted by the House Agriculture Committee which would reform the interest rate structure and produce a much more reasonable and equitable interest rate structure.

We have analyzed the effect of this change upon the interest rate structure in a number of States including the States represented by the members of the subcommittee and would like, if we might, to submit that analysis for the record.[1]

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[1] See p. 72 for the prepared statement of Mr. DeWeaver.

It shows that in many many States, nearly every State, the effect of the current regulation of the Farmers Home Administration has been to limit any access to reduced interest rate loans or to grant assistance to a very tiny fraction of the rural counties in this country.

We submit that this needs to be corrected by legislative action.

We also think it is important that in your bill, in addition to addressing the interest rate structure, you also look simultaneously at the way in which the grant money is used, and correct problems which have arisen in that program. We urge that you continue your support for a project selection system that will introduce public accountability into the program in terms of those projects selected for Farmers Home assistance, and further that you support cost effectiveness in the program through a number of measures, including the reintroduction of a predevelopment loan program so that the communities that have special needs can have them met in order to get access to Farmers Home money by being able to prepare applications which address all their needs, and support a provision for a technical assistance program which would enable communities to have access to impartial advice whereby they could investigate more thoroughly the most appropriate approaches to their water and wastewater programs including the possibility of whether the most appropriate approach is the onsite system approach which the other members of the panel have endorsed.

We thank you very much for the opportunity to testify and we would be happy to answer any questions.

Senator HAWKINS. Thank you. I'll start with you, Mr. DeWeaver.

You testified last year in favor of amendments that you just reiterated. Has the situation changed when you updated your testimony. The purpose of the hearing today is to get a more current record in light of all the legislation floating around the Senate floor and other places on this Hill for moratoriums, and so forth.

Mr. DEWEAVER. Correct, Madam Chairman. We think that the type of approach which we recommended last year, and which we continue to recommend is much more urgently needed now. The way in which grant funds have been drained to provide interest subsidy payments for higher income communities means that that aspect of the program desperately has to be addressed.

The experience in fiscal year 1982 in the use of loan money shows that the type of interest rate structure which is represented in your bill is the type of interest rate structure that would make some sense.

We also know that the Farmers Home Administration, in proposing regulations on project selection system, has placed great emphasis on factors which have no relationship to the need of the community for assistance, and therefore think that what we recommended in the way of a project selection system is more needed now than it was even last year.

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[1] See p. 76 for the interest rate structure analysis.

Senator HAWKINS. You're talking about targeting the grant funds, and indicate, in fact, state in your testimony that it favors larger communities rather than the rural communities.

To what extent does the 1-percent rule do to the Farmers Home Administration directives affect that?

Mr. DEWEAVER. The effect of the 1-percent rule has been to make larger and higher income communities eligible for grant funding; therefore, more and more of the grant money has gone into the larger and higher income communities rather than those communities for which the money was originally intended.

We think that that problem has to be addressed, but not by adding to their current rules which are already so numerous that it's very difficult to keep track of exactly which one they're using at any given point in time. Instead, there needs to be a simple legislative remedy which would say that communities of these characteristics are eligible for this proportion of grant money.

It's a kind of approach that's been used successfully in other Federal agencies. We would think that it would really fit the emphasis of the current administration on deregulation.

They should not add to their rules. They should simplify their rules, and we think that what we're proposing would make that legislatively possible.

Senator HAWKINS. How do you feel about using the technologies, such as onsite treatment of water to provide acceptable health standards in the rural community?

Mr. DEWEAVER. We very much favor that. We think that in order for a rural community's needs to be met, it's necessary to examine those needs carefully. That's why, for instance, we propose funding of a very modest scale technical assistance effort to encourage communities to do this.

At the present time, the combination of Farmers Home practice and the way the program has been run favors the most expensive kind of system, central systems for all residents, because basically that's what Farmers Home has been financing.

If you look at the needs of rural residents across the board, you would find that in many cases smaller systems, and in a number of cases, onsite systems, are much more appropriate.

And therefore, if Farmers Home had the ability, and if the community had access to expertise which could help it look at the problem in that perspective, and if Farmers Home had a financing mechanism that was responsive to those needs, it would represent a much more efficient use of both Federal money and the money on the part of the utility consumer who eventually has to pay for the facilities that are constructed.

Senator HAWKINS. Thank you, Mr. DeWeaver.

Mr. Hall, in your opinion can you provide all the services that rural water districts supply?

Mr. HALL. There is no question about that, and we have been doing this for the past 4 years.

Senator HAWKINS. Do you satisfy all of the health and sanitary requirements of Federal, State, and local now that pile up?

Mr. HALL. Yes. We've been doing that for 4 years.

Senator HAWKINS. You indicated that the point of use technology is capable of treating water in rural communities as an alternative to the central treatment that we've talked about, which are presently being financed by Farmers Home. Could you expand upon that at all?

Mr. HALL. We have, as far as total cost of the system, the direct cost to the user, we are not only very competitive with, but if the full cost to the user, with the cost of the grant money which is no cost to the user, and extremely low interest rates, that there would be no question about the cost effectiveness in the vast majority of cases on less elaborate systems.

Senator HAWKINS. Is your technology and your industry's product competitive on a price basis to the cost of users of central water?

Mr. HALL. Very much so. Very much so. If the full cost were born by the user, there would be no comparison in most cases.

Senator HAWKINS. Wouldn't it make good sense for FmHA to consider the use of onsite water treatment as an alternative to the central treatment in rural areas in your mind?

Mr. HALL. That's why we're here.

Senator HAWKINS. We just keep asking again so maybe somebody will pay attention to it.

Mr. HALL. That's right.

Senator HAWKINS. So everyone, as I understand it, on this panel, supports onsite as a reasonable alternative to central treatment in the rural areas.

Do you support an investigation into to the practicability and the feasibility of onsite as an alternative?

Mr. HALL. That's why we're here, and we support that.

Senator HAWKINS. And you don't have any idea of what we could envision in savings to the Federal Government?

Mr. HALL. Up front, I am only familiar with the system in Iowa, but I would say probably two-thirds of the funds.

Senator HAWKINS. Two-thirds?

Mr. HALL. As high as two thirds could be saved.

Senator HAWKINS. That's worth a study.

Mr. HALL. We're talking many millions.

Senator HAWKINS. That's impressive. Thank you so much for your testimony here today. As I've said earlier, there may be questions to all of you from the other Senators.

I certainly appreciate all of you coming back and helping us to up date our records so that we can have an accurate record to look at for current legislation. Thank you again for your time in coming down here to give us such informative testimony.

The subcommittee stands adjourned.

[Whereupon, at 11:17 a.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. PAULA HAWKINS
A U.S. SENATOR FROM FLORIDA

Today the Subcommittee on Agricultural Credit and Rural Electrification will conduct a hearing on credit conditions in rural America. Congress now has before it several bills intended to relieve the difficult conditions facing farmers and rural communities. It is my belief that a comprehensive approach to reauthorizing the Farmers Home Administration will do much to aid this effort.

Many Senators, in fact the entire Agriculture Committee, have expressed their concern over the tight credit conditions facing many of America's farmers. Although all of the farm credit legislation that has been introduced is aimed at helping farmers through this difficult period, critics contend that some proposals may be more harmful than helpful to farm communities.

However, the outlook today is significantly better than it was last year. Inflation has leveled off. The Farm Credit System now charges 13 percent for many of its loans. The Farmers Home Administration has also sharply lowered its rates during 1982 and is expected to lower rates further. In the past year, the Senate and the Reagan Administration have taken strong steps to solve the farm income problem. The domestic payment-in-kind program is now in place and the full Senate Agriculture Committee has reported a comprehensive bill to promote new agricultural exports. I am optimistic that these steps will help restore vitality to the farm sector.

Last year, the full Committee unanimously approved legislation identical to S. 765, one of the several measures under consideration by the Subcommittee today. This bill reauthorizes, in a comprehensive fashion, the Farmers Home Administration. It provides legislative authority to continue for three years operating, ownership, disaster, and rural development programs. In addition, it includes important reforms designed to protect farmers from loss and taxpayers from a repeat performance of the bad credit policy of the late 1970s.

These reforms include the recapture of interest subsidies when farmers sell land purchased with Farmers Home loans for a profit. They also urge Farmers Home borrowers to purchase crop insurance on crops pledged as collateral for Farmers Home Administration loans. Revisions in the Business and Industrial loan program target viable, job creating enterprises for our poorest rural communities. S. 765 also establishes a more rational interest rate structure for water and sewer loans and insures adequate funds will be available for those communities.

There are, of course, several other measures before the Subcommittee today. The Reagan Administration has proposed legislation, introduced by Senator Helms. There are three additional measures before the Subcommittee intended to relieve hard-pressed farmers. Although each of these measures is well intentioned, I am not convinced, based on the evidence of the last decade, that large extensions of credit will be helpful. The complexity of this issue requires, however, a full examination of these initiatives. With these thoughts in mind, let us turn to our first witness.

STATEMENT OF HON. WALTER D. HUDDLESTON
A U.S. SENATOR FROM KENTUCKY

Madame Chairman, I commend you for holding these hearings and for working with other members of the Committee to develop responsible legislation reauthorizing Farmers Home Administration programs.

Before commenting on existing Farmers Home Administration programs, I want to address several issues that relate to the deferral provision of S. 24, the Emergency Agricultural Credit Act of 1983. That bill was reported by the Committee last week.

Deferral Provision of S. 24

The threat of foreclosure is the most serious and demoralizing aspect of the current depression in the agricultural economy. Farmers Home Administration farm loan programs need to be adjusted immediately to prevent foreclosures against efficient farm operators who are experiencing temporary financial hardship through no fault of their own.

The deferral provision of S. 24 would put into law what the Administration says is its policy with regard to granting deferrals. Specifically, S. 24 will require the Secretary of Agriculture to grant deferrals and forego foreclosures on Farmers Home Administration farm loans when the borrower can show to the satisfaction of the Secretary that:

(1) he has exercised good management practices,

(2) due to circumstances beyond his control, he is temporarily unable to continue making payments, and

(3) he has a reasonable chance of repayment of the loan after the deferral period ends.

The bill does not forgive any principal owned by FmHA borrowers. The burden of proof with respect to whether a farmer qualifies for deferral and related benefits will rest solely on the borrower.

I recognize that the Administration opposes deferral proposals. The Administration position seems to be based on a concern that large numbers of FmHA borrowers would file law suits seeking loan deferrals. We have addressed that concern in S. 24 by including the provision that the borrower, to qualify for a deferral, must demonstrate to the satisfaction of the Secretary that he meets the criteria established by the bill. Of coarse, borrowers would retain their right to challenge administrative decisions made in an arbitrary or capricious manner.

I share the Administration's concern about involving the Farmers Home Administration in excessive litigation. FmHA is already being sued in a number of district courts and bankruptcy proceedings because its present foreclosure policy is not clear to the public and is too subjective and open to interpretation by FmHA employees at the county level.

S. 24 will resolve the existing confusion and eliminate the appearance of inequity by defining, in law, the principles that shall be used to grant a deferral.

I also would like to emphasize that the deferral provisions of S. 24 would apply only to the Farmers Home Administration. No other lending institution would be affected. S. 24 in no way would interfere with the orderly operation of private credit markets. Undue interference in private credit markets could only jeopardize the availability of credit to our nation's farmers.

In terms of cost, the budget impact of this legislation has been greatly exaggerated by the Administration. I will point out that the deferral proposal applies only to loans that would be repaid with interest. In that context, I agree with the CBO analysis indicating that the major cost will be administrative.

Although this deferral provision is extremely important to our nation's farmers, the Farmers Home Administration administers a wide variety of programs of interest to farmers.

Farmers Home Administration Programs

The Farmers Home Administration provides a unique service for rural America. It is the only federal credit agency that provides assistance exclusively to rural areas; and it provides a comprehensive variety of programs for farmers, rural communities, and rural businesses.

I think this hearing is an appropriate occasion to recognize the need for the variety of assistance provided by the Farmers Home Administration.

Through its limited resource farm credit programs, the Farmers Home Administration assists young and beginning farmers getting started in farming. The emergency loan programs have enabled thousands of farmers to recover from natural disasters, such as droughts and severe storms, and also economic emergencies caused by credit shortages or low commodity price in relation to production costs. This year, farmers need such assistance more than ever.

If commodity prices improve and interest rates fall, many thousands of existing Farmers Home Administration borrowers will no longer have to rely on the Farmers Home Administration for credit. However, there will still be a need for these programs. Young farmers need help in getting started. Part-time small operators need help in making their farms viable. And, there will continue to be a need for emergency loan programs that assist farmers who suffer economic or other losses through no fault of their own.

Although the Farmers Home Administration agricultural credit programs are among this Committee's major concerns, farmers also benefit from other Farmers Home Administration programs.

Off-farm income is becoming more important to farm families each year. The Business and Industrial loan guarantee program channels business capital from urban financial centers to rural areas. This program has created or saved about 270,000 jobs in rural areas and is a source of jobs and income for many farm families and other rural residents.

The Farmers Home Administration, through its community facility program and water and waste disposal program, provides rural areas with needed medical facilities, safe drinking water, and sanitary waste disposal systems. There continues to be a need for these programs and the backlog of applications is growing.

In terms of housing, almost two-thirds of the nation's substandard housing is in rural areas. In recent years, many rural residents received indoor plumbing for the first time when the Farmers Home Administration helped them buy a home or rent an apartment.

All of these programs are delivered to individuals and communities through a vast network of FmHA county offices. This delivery system keeps the local Farmers Home Administration staff in touch with the people and the needs of the community.

As we consider the need for some of the programs that the Administration proposes to abolish or reduce, we should take into account that these are loan programs, not handouts. These are programs that have effectively and efficiently improved quality of life for millions of people and helped make our rural areas desirable places to live, raise families, and prosper.

I look forward to working with Senators Hawkins and Zorinsky, and other members of the Committee, in developing legislation to reauthorize Farmers Home Administration programs.

STATEMENT OF HON. THAD COCHRAN
A U.S. SENATOR FROM MISSISSIPPI

I appreciate your holding this most important hearing on efforts needed to improve the credit environment in which our farmers have to operate.

During the last several months I have been arguing that we needed a balanced approach to solving the farm problem. Now that we have initiatives underway to reduce production and stimulate demand, I am confident that we are on our way to a healthy and prosperous agriculture in the years ahead.

Unfortunately this does not address the more pressing problem facing farmers this spring. Inability to get sufficient agricultural credit is creating a major problem in the farm community of my state. So much so that unless action is taken on the agricultural credit legislation pending before the Senate, many farmers in my state may not be around next year to enjoy the benefits of higher prices associated with the acreage reduction and market expansion programs currently in place.

I am sure that the same problem exists in most other major agricultural states as well.

The magnitude of the problem can be summarized by simply reviewing the current debt structure of agriculture. The total farm debt was only $54.4 billion in 1971. By 1975 it had increased to $81.6 billion. By 1982 it was $201.7 billion.

At the same time the net farm income to service this debt has gone down. For example, in 1975 farmers had $24.5 billion in income to service a debt load of $81.6 billion. Farm income in 1982 was $19.0 billion to service a debt load of over $200.0 billion.

The combination of programs in place now point to higher income to service debt load. What we need now is to change the credit programs operated by the Farmers Home Administration to better reflect the needs of individual farmers, to provide leniency during the transition period from low prices to higher prices, to provide a repayment structure on rescheduled loans which recognizes a farmer's cash flow needs, and to give farmers the benefit of lower interest rates.

The bill ordered reported by the Senate Agriculture Committee on March 2, 1983, addresses each of these needs.

I urge this Committee upon completion of this hearing to help us move quickly to gain passage of S. 24. Time is of the essence. The planting season is already underway in my state. If this bill is to be enacted in time to help this year it has to go to the floor of the Senate within the next few weeks.

I urge all those interested in helping farmers to join in this effort.

STATEMENT OF HON. PATRICK J. LEAHY
A U.S. SENATOR FROM VERMONT

Madame Chairman, I want to thank you for holding this hearing on the important question of rural credit.

Rural Americans have long been denied access to the affordable credit that their urban counterparts can obtain. In fact, some 800 rural counties still do not have a savings and loan or other thrift institution within their borders. Per capita bank deposits in rural areas still average less than 80 percent of their urban counterparts.

Access to credit is essential to the continued health of American agriculture and rural economic development. During hearings of the Subcommittee on Rural Development, Oversight, and Investigations in Vermont on Februrary 14, witness after witness testified to this fact.

The Administration's recently released rural development strategy report also identified credit as a priority for rural Americans. Yet, their fiscal year 1984 budget does not.

The President has again asked rural Americans to bear a disproportionate share of budget reductions. Funding for the programs of the Farmers Home Administration (FmHA) Rural Development Insurance Fund (RDIF) are slated for another 50 percent cut.

This is simply unacceptable.

I want to congratulate you, Madame Chairman, for the introduction of S. 765, legislation designed to reinforce the federal commitment to rural America in the crucial area of credit.

The rural water and sewer loan and grant program and the community facility loan program were slated for another 50 percent cut under the President's budget.

S. 765 restores funding to fiscal year 1983 levels for all three programs for the next four years. I support this section of the legislation.

The Business and Industrial Loan program has saved or created 276,000 rural jobs since its inception. At this time of high unemployment and stagnant economic growth, the business and industrial loan guarantees can help create jobs in depressed rural areas.

The Administration rural development strategy report noted that small town residents wanted better job opportunities. Their fiscal year 1984 budget instead proposed the elimination of the Business and Industrial program.

S. 765 would fund this program at its fiscal year 1983 level for the next four fiscal years. I support this section of the legislation as well.

I noted with great interest that you have also included an amendment which will solve some of the regulatory problems hampering the operation of the community loan programs.

Last year, I sponsored a similar amendment to the FmHA reauthorization bill, S. 2314. With your support, Madame Chairman, and the support of others on the Committee, this amendment was approved.

The Senate failed to act on S. 2314 however.

The FmHA has adopted regulations which make it almost impossible for my home State of Vermont and other states to receive water and sewer and community facility loan funds.

The regulatory changes envisioned in S. 765 would go a long way toward addressing this problem and enabling rural towns to once again benefit from FmHA financing.

Rural America is vitally important to the strength of our nation. The FmHA community programs provide important help to our small towns and cities. They must be continued.

STATEMENT OF HON. DAVID BOREN
A U.S. SENATOR FROM OKLAHOMA

Madam Chairman, I commend you for calling this hearing today on an issue which has concerned me greatly for a long time. At a time when the agricultural economy is in the midst of a depression, it is imperative that we provide our farmers with the credit necessary to survive the rough time.

It was due to this concern that I initially proposed, in the last Congress, a bill, S. 2149, which would provide for deferrals of Farmers Home Administration farm loans. Last fall, we successfully passed a floor amendment in the Senate to the agricultural appropriations bill which provided for deferrals and rescheduling of farm loans as well as an extension of the Economic Emergency Loan program. Regretfully, the provision that came out of conference was meaningless.

On the first day we were in session this year, Senator Huddleston and I introduced S. 24, the Emergency Agricultural Credit Act of 1983. The Senate Agriculture Committee, on March 3, ordered S. 24, as amended, to be favorably reported to the full Senate.

Since we first began discussing this legislation, there have been repeated attempts by the opponents of this measure to confuse the issues. Some have claimed that every FmHA borrower would receive a one-year deferral under this measure, even those farmers who were in a financial position to make payments would receive the deferral. This is far from the truth. If one would merely look at the language in the bill, one could see that this would not happen. The Secretary would be required to grant a deferral only if a borrower can show, to the satisfaction of the Secretary, that the borrower (1) has followed good management practices, (2) due to circumstances beyond his control, is temporarily unable to continue making his payments, and (3) has a reasonable chance of repayment after the deferral period expires. Clearly, a person who is capable of making his payments does not qualify for this provision.

This Administration has said that this legislation is not needed because (1) it is their policy now to provide deferrals and (2) foreclosures have not been increasing dramatically. On the first point, if indeed this is their policy, they should not oppose this legislation as it would merely put their policy into law. With regard to the second point, I will have to disagree as the facts show otherwise. In 1980, there were a total of 260 foreclosures by the Farmers Home Administration. There were no more than 300 foreclosures in 1981. However, in fiscal year 1982, there were 844 foreclosures--almost three times the number in 1981--6,000 liquidations and 1,245 bankruptcies discharged. If we consider foreclosures, alone, they skyrocket from 300 to 844 in one year. That represents an increase of almost 300 percent in one year. If that is not dramatic, I would wonder what is.

We have already experienced three years of declining farm income and despite the implementation of the PIK program, it appears this trend will continue. The current economic condition facing the agricultural economy requires us to monitor the number of foreclosures, liquidations, and bankruptcies occuring in the agricultural sector. Americans need only look back at history to learn a simple, invaluable lesson. It was the collapse of agriculture, leading to dispersal sales of land and equipment which signaled the start of the Great Depression. The domino effect which would result from a collapse of agriculture threatens our entire economy again in the 1980's.

S. 24, the Emergency Agricultural Credit Act of 1983 is both compassionate and prudent. It is compassionate in that it will assist those farmers who are having financial difficulties through no fault of their own. It is prudent in that it will protect not only the agricultural economy, but it will also protect the health of our Nation's total economy from a potential domino effect if agriculture experienced a total collapse.

STATEMENT OF ALAN R. TUBBS, ON BEHALF OF
AMERICAN BANKERS ASSOCIATION

Madam Chairman and members of the Committee, I am Alan R. Tubbs, President of First Central State Bank, De Witt, Iowa. I am testifying today in my capacity as member of the Executive Committee of the Agricultural Bankers Division and of the Government Relations Council of the American Bankers Association. Our Association consists of more than 13,000 full service banks, over 90% of the nation's banking community.

While our members range in size from the very smallest to the very largest banks, approximately 90% of them have assets of less than $100 million. Two-thirds of the nation's full service banks are in communities of less than 25,000 people. In fact, half of these banks are in towns with fewer than 5,000 residents. According to the latest estimates, nearly 60% of these community banks listed agriculture as the single most important source of income for their communities.

We appreciate this opportunity to present the associations's views on a number of issues related to agricultural finance and the lending programs of the Farmers Home Administration (FMHA) and how these programs would be affected by legislation now under consideration in the Congress.

The banking industry is deeply concerned about the economic problems of the American agricultural sector. Bankers work closely with farm families in the management of their financial affairs and are quite aware of the financial difficulties many farmers are facing today. Many agricultural related businesses in rural America, which provide products and services to farm families, are also suffering as a result of the financial problems of farmers. We believe the best approach for assisting these customers is for banks and other agricultural lenders to work in partnership with regulators, customers, and others to arrive at acceptable solutions within the existing laws and system. Forebearance and cooperation, until the economy improves, are the keys to overcoming this economic crisis. We believe the major concern of Congress should be aiding the U.S. and World economies in recovering from recession and inflation and not legislative initiatives which prohibit or delay foreclosure action on an indiscriminate basis.

We believe it is important for Congress to place high priority on a full evaluation of the current problems within the agricultural sector and carefully consider appropriate corrective legislative action. We think the following concepts should be considered in an evaluation of the present situation.

- The basic problem is oriented to an unfavorable income/cost relationship -- not inadequate credit.
- The problem is limited to certain producers and agri-businesses within the agriculture sector.
- The financial position of individual farm families and their ability to survive the adverse economic situation varies greatly.
- There are legitimate needs for special government programs to alleviate the problem. However, such programs should not be designed to eliminate the "right" for a poorly managed business to fail.
- Government programs for farmers should at all times focus on the long-range well-being of the country and the problems of the farm sector, while immediate needs should be addressed with limited temporary programs.

We emphasize the importance for Congress to give its primary attention to the income/cost problems in agriculture and the supply/demand imbalance which has contributed to the negative impact on agricultural commodity prices. However, we believe that some specific changes need to be made in the Farmers Home Administration (FMHA) loan programs which will assist the agency's farm customers to survive this economic crisis. To fully explain our position and to make our views most clear, I wish to comment on the issues contained in the various pieces of legislation now being considered by Congress as well as the banking industry's involvement in the ever growing agricultural industry.

For a decade and a half prior to 1973, chronic over-production plagued

U.S. agriculture. Modern technology in the form of machinery, fertilizer, pesticides, and genetics fostered major increases in agricultural productivity with crop production persistently exceeding market demand.

To reduce the overabundance of crop output and inventories, production control tools (set-aside provisions, acreage reduction and diversion programs) were implemented. To a certain extent, this mix of acreage programs coupled with the use of the long-term grain reserve enabled policy makers to adjust market supplies in an effort to meet demands while keeping prices within desired bounds. The long-term grain reserve has been a useful post-harvest device for adjusting supply to utilization and thereby ease price pressures upward or downward.

During the 1970's, American farmers became increasingly dependent upon exports as a market for their plentiful production. Even though the U.S. is the world's largest exporter of farm products, the increase in U.S. agricultural export prices was much less than the gain in either consumer or wholesale prices. For the first time since 1969-71, the average real export price and farm price (deflated by the CPI) for export items were about 12% less in 1980.

Madam Chairman, over the years, the American farmer has become the most productive and efficient producer of many agricultural products in the world. Two out of every five acres of U.S. cropland were harvested for export. To produce the record high 163 million tons of exports in 1981, over one-half million farmworkers were needed.

This global market has allowed farmers to vastly expand their production and has been a real boon to the U.S. economy. The net trade surplus of U.S. agricultural trade in calendar year 1981 was nearly $27 billion. U.S. farm exports declined in 1982 and are expected to decline further in FY 1983 as large global crop supplies and weak demand keep prices under pressure.

Stronger-than-expected economic recovery would alter the export forecast significantly. Further, the worldwide economic slowdown has magnified the impact of the strong U.S. dollar, and the outlook for the international money market is uncertain. Other factors affecting U.S. exports in FY 1983 include intense competition for world markets, continued financial problems in many developing countries, growth in the world's livestock industries, foreign crop developments, and policy decisions in foreign countries.

As a result of overproduction and weakened export demand, the supply of most major grains, milk products, and many other agricultural commodities in the U.S. are at excessive, record levels. The Payment-in-Kind program (PIK), will hopefully help correct the overproduction problem in 1983 — and 1984, if continued. However, more than PIK will be needed to get supply and demand back into proper perspective. Development and expansion of agricultural commodity markets, both domestically and abroad, are of major importance to bring supplies down and keep them at acceptable levels.

Madam Chairman, our association supports the Administration's PIK program. It will be beneficial in reducing the need for farm operating loans while reducing risk and maintaining farm income near previous levels. We believe that if the policies associated with the government's grain reserve program are left intact along with the new PIK program, a major influencing factor on the prices of agricultural commodities will be realized.

U.S. farmers now spend nearly two-thirds of their cash receipts to purchase and finance things used in the production process. Major farm input items include fertilizer, pesticides, farm machinery, feed, fuels and energy, and seed. Thus, the industrial nonagricultural sectors of the economy depend on expansion of U.S. agricultural production to generate increased employment, utilization of capacity, and profits. Even though we support the goals of the PIK program, we should not lose sight of the adverse effects it will have on agriculturally related businesses.

Agriculture has changed dramatically over the last few years. The average size of the production unit has become increasingly larger and these units have become more capital intensive. Farmers' capital and credit needs are growing at record rates. During the 1970's, the average annual increase in debt exceeded 10.5%. In the most recent years, the growth rate in debt outstanding exceeded 15% per year. Total agricultural debt has climbed over the $218 billion level. Commercial banks within the U.S. hold more than 20 percent of that debt. This debt is spread unevenly throughout the farm population; creating special problems for those holding large loan balances. Recent data compiled by USDA indicates that half of the U.S. farmers are debt free.

FMHA Farm Loan Programs

Operating Loan Limits and Authorizations

Madam Chairman, we believe that the operation of the Farmers Home Administration should be examined in relation to the whole structure of this country's financial institutions and the credit needs of the agricultural sector of the economy. Of the major public agencies that lend to farmers, the Farmers Home Administration is the largest and the most important in terms of reflecting the credit policies of the Department of Agriculture. In 1981, the Farmers Home Administration's portfolio was nearly 50 times its size in 1960. In the last six years, it's share of total farm indebtedness has risen to 14% from 4%.

Any Federal credit activity involves some degree of subsidy. In essence, subsidy is granted when a borrower obtains funds at an interest rate lower than would have been paid for a comparable private sector loan. We believe the insured loan program of FMHA is more dependent on government funding and commands more of a subsidy than does the guaranteed loan program where the loan funds are provided by private lenders. Therefore, we believe more of each years appropriations should be used for loan guarantees.

The various bills under consideration would increase FMHA's insured operating loan limits from $100,000 to as much as $200,000 and guarantee authority from $200,000 to $400,000. We believe a change is much needed which will assure that FMHA programs are useful to the average farm family and that adequate loan levels are available to meet their needs. It is essential that financing under these programs provide for the credit needs of economical farm units which provide a reasonable living wage for the farm family and sufficient cash flow to handle increasing levels of operating expenses and the servicing of debt. In light of this we believe an increase in the insured limit to $200,00 and in the guarantee limit to $300,000 is sufficient. The association opposes the proposal to increase the operating loan authorizations by an additional $200 million specifically to be used for new borrowers.

Limited Resource Farmers

The Farmers Home Administration makes loans to help low income farmers and ranchers who live on small farms improve their farming and earn a better living. These loans are made on easier terms than ordinary farm loans, and are intended to give the limited resource farmer a chance to become successful in farming, and closer to the point where he or she can qualify for regular types of farm financing.

We recognize the limited resource program has enabled the Farmers Home Administration to serve many farmers who previously could not qualify for any form of Farmers Home Administration or other farm credit. However, we oppose the concept of mandating that certain amounts of program funding levels be used for limited resource loans. We accept the guideline presently being used by the administration, wherein 20 percent of program funding levels have been targeted for limited resource loans. Mandated levels could bring pressure against loan approval officials to grant loans of much poorer quality to higher risk applicants in an attempt to meet the mandate.

We believe that realistic and unsubsidized interest rates are in the best interest of farmers. We recommend that interest rates on all insured loans except in unusual and limited cases, such as to beginning farmers who can not pay market rates, be based on the cost of money to the Treasury plus a reasonable charge for administration.

Consolidation and Rescheduling

The continuing high and volatile levels of interest rates are, of course, at the heart of the present economic difficulties. Bankers are extending their resources to carry existing borrowers as much as is economically prudent. Banks have engaged in loan renegotiation, interest only payment plans, extension of loan maturities, and even significant rate reductions to assist struggling small business and farm borrowers through the current difficult period.

In light of this we applaud efforts which the FMHA has made concerning consolidation and rescheduling of loans. However, we oppose the concept of increasing the period over which loans can be rescheduled or reammortized from 7 to 15 years. We believe the period over which the repayment of loans is spread should be tied to the useful life of the collateral securing the loan. In many cases the useful life of collateral securing farm loans is not seven years and in very few cases would extend past seven years.

Eligibility for Emergency Loans

We cannot support the designation of individual disaster assistance for farmers suffering production losses. We believe an insurance program such as the Federal Crop Insurance program is a much better method of assisting borrowers who have experienced production losses due to natural disasters. Farmers need to recoup income when disasters occur, not take on additional debt. We believe that individual designations will tend to discourage the utilization of Federal All-Risk Crop Insurance or similar insurance programs.

We have in the past supported efforts to effect a smooth transfer of the numerous disaster assistance programs to a nationwide, centralized insurance program. The only time we prefer to retain authority for disaster payments is in areas where Federal Crop Insurance is unavailable.

Extension of time for additional emergency loans

Our association supports the proposal contained in the bills being considered which will authorize the agency to make available to certain Emergency Disaster borrowers annual operating credit through FY 1984. However, this should be done for only those borrowers who cannot get credit elsewhere at reasonable market rates.

Loan deferrals

Under existing law, the Secretary of Agriculture already has discretionary authority to forego foreclosure and defer payments. Madam Chairman, even though 1981 was the third straight year of low farm income, the Farmers Home Administration was able to stay with over 97% of its farm borrowers. Many of the bills would enact into law the guidelines FMHA is presently using to determine whether loan deferrals should be granted to a borrower; however, these bills contain provisions which would almost require the agency to have an open door policy concerning loan deferrals leading to a blanket moratorium for all borrowers. The ABA opposes these proposals.

First, the administration has identified a good set of criteria to use in making a determination for loan deferrals on a case by case basis. Putting this into law would limit the flexibility of the agency to consider requests for loan deferrals from customers for reasons other than those that would be permitted by law.

Second, it would be impossible for FMHA to administer a program which requires the agency to notify all existing borrowers of how they may receive loan deferrals especially when the burden of justifying whether the deferral is granted is required of the agency.

Third, we oppose provisions regarding a blanket moratorium on foreclosures and mandatory deferral of payments for borrowers from either the public sector or private sector. There are many FMHA borrowers who can make their payments as scheduled; but with a mandatory deferral provision they may choose to use farm income to make unneeded capital expenditures or for excessive family living expenses. Once the deferral period has lapsed the loan still must be repaid and in many cases required payments will increase. Also, it would be most unfair to borrowers who use other credit sources, or FMHA borrowers who sacrifice to make payments as scheduled.

Guaranteed Loan Program Administration

Madam Chairman, we like the emphasis placed on the guaranteed loan program which will make it possible for the private sector to handle a fair share of the credits temporarily not bankable on their own merits. As you know, this program has not been very well utilized. In an attempt to make this important program more effective, the Agriculture Division of the ABA and the FMHA are in the process of formulating a task force to study the possibility of an alternative program. In collaboration with government agencies, the creation of a Certified Lenders Program might prove to be more efficient. We suggest the use of this alternative program. We believe the implementation of this change will make the Farmers Home Administration Gauranteed Loan program more viable and go a long way in meeting some of the special credit needs of farmers.

We recommend that you give high priority to the support of Farmers Home Administration administrative authority needs for strengthening the agency's field force for effective implementation of its various programs. Bankers are concerned about the ability of the Farmers Home Administration to properly administer its much expanded programs with limited staff. We believe the Farmers Home Administration is the appropriate organization to handle the various government programs for rural America; but it is important that the agency have an adequate, well trained staff to ensure timely and consistent administration.

Economic Emergency Loan Program

Economic Emergency loans are for those who suffer economic losses, or a general lack of credit, or unfavorable relationships between production costs and agricultural commodity prices.

We believe programs such as the economic emergency program should be eliminated because it is duplicative of other programs while permitting lending practices that are much too loose and inappropriate for financially distressed farmers. Many of FMHA's borrowers are experiencing financial difficulty simply because they presently have excessive debt loads. Taking on more debt is not the answer for these borrowers.

Summary

In summary, we believe that our legislative recommendations are appropriate and necessary. As active participants in the rural economy we offer our continued support and cooperation for these family-farm and rural community programs.

The ABA is grateful for the opportunity to express its' views. We look forward to working with you, Madam Chairman, and other members of this Committee as you seek ways to improve the credit programs for farm families.

I will be happy to respond to questions.

STATEMENT OF MARY KAY THATCHER, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

Madam Chairman and members of the Subcommittee, Farm Bureau appreciates the opportunity to present testimony regarding Agricultural Credit and the Farmers Home Administration.

The American Farm Bureau Federation is the nation's largest general farm organization with a membership of over 3 million families in 48 states and Puerto Rico. Farm Bureau members produce virtually every type of commodity grown on a commercial basis in the country. Farm Bureau policy is developed by the producer members at the county, state, and national levels of the organization.

Let me make a few observations about the Farmers Home Administration in general.

The FmHA was originally created for one purpose--to make loans to depression-stricken farm families. Today, although FmHA still aids family farmers, its resources are not concentrated on aiding family farmers because its programs have become so highly diversified.

Programs which require not only funds, but time and effort of FmHA personnel include home ownership loans, rental housing loans, mutual self-help housing loans, congregate housing loans, water and waste disposal loans, energy impact assistance grants, community facility funding, business and industry program funding, watershed and flood prevention loans, and resource conservation and development loans.

These programs all draw on the time that FmHA personnel at the national, state, and local levels would otherwise have to spend on the agricultural credit programs--those programs which FmHA was established to address.

In FY'82 FmHA's Rural Housing Insurance Fund, spent mainly on various housing programs, had a budget exceeding $3.7 billion. The Rural Development Insurance Fund, spent on alcohol production, community facility, and water and waste disposal loans, had a budget exceeding $1 billion. In addition, FmHA's budget for grants for programs such as farm labor housing, mutual and self-help housing, home repair, and water and waste disposal exceeded $560 million. At the same time, the Agricultural Credit Insurance Fund, which funds Farm Ownership and Operating loans--which should be the backbone of all FmHA funding--had a budget of only $2.3 billion. This included funding for soil and water loans, Indian land acquisition loans, recreation loans, and others. Our point is simple: farmers could be aided much more if FmHA did not have to spend so much time and money on all the non-farm programs presently administered by FmHA.

An example is a recent discussion one of our State Farm Bureau presidents had with his county FmHA personnel. He complained of the long periods of time farmers had to wait before hearing from FmHA about their loan applications. The farmer pointed out that forcing a farmer to wait until mid-April to see if his Operating Loan would be approved was too late in the year. He was told that one of the biggest time constraints was the fact that at least two days each week were spent on housing loans.

We must not let this continue. The answer to aiding more farmers is not simply more money--it is better and faster servicing by FmHA personnel.

Farm Bureau is concerned about many of the bills introduced this session which deal with the Farmers Home Administration, mainly because of provisions regarding a moratorium on foreclosures and mandatory deferral of payments on principal and interest. The Secretary of Agriculture already has discretionary authority to forego foreclosure and defer payments. Even though

1982 was the third straight year of low farm income, the FmHA was able to stay with over 97 percent of its farm borrowers. According to FmHA figures, 3,600 borrowers had their principal and/or interest payments deferred, 12,000 borrowers had their loans rescheduled or reamortized, and nearly 30,000 loans were subordinated to allow the farmers to obtain loans from private lenders. In addition, one-quarter of the FmHA borrowers were being carried delinquent at the end of the year.

On the other side of the coin, foreclosure was undertaken in 844 cases during FY 82--less than three-tenths of one percent of the borrowers. Another 6,000 liquidated their loans and 1,245 chose bankruptcy. In all, about 8,000, or 3 percent, of the FmHA borrowers stopped farming.

Farm Bureau also opposes a deferral of payments provision because there are many FmHA borrowers who can make their payments on time; but with a mandatory deferral provision, they probably would choose to wait until the end of the deferral period and use the money elsewhere until that time. Therefore, mandatory deferral would be a very costly item. The Department of Agriculture estimates that the additional deferrals would cost the government between $1.4 and $1.6 billion. In addition, a deferral provision is unfair to borrowers who use sources of credit other than FmHA (88 percent of the agricultural borrowers) and would have to continue to make timely payments.

Because S. 24, the Emergency Agricultural Credit Act of 1983, has been reported out by the full committee, I will focus the rest of my comments on the provisions of that bill. However, I will be happy to answer any questions regarding our position on other bills.

Let me reiterate that our principal concern in S. 24 or any other FmHA legislation are the provisons dealing with moratorium on foreclosures and the mandatory deferral on payments of principal and interest. Farm Bureau also opposes the inclusion of the following provisions:

1. S. 24 calls for $200 million in additional funding for FY83 for the Operating Loan program. The Farmers Home Administration indicates they have enough money to service borrowers during this fiscal year. Farm Bureau cannot support increased funds of this kind--which will add to the ever-rising federal spending. We recommend transfering funds from non-farm programs, rather than simply allocating $200 million in additional funds.

2. S. 24 calls for increasing the insured Operating Loan limit from $100,000 to $300,000. While we agree that the current limits are too low with respect to current financial requirements, we instead recommend increasing the limit to $200,000. Our concern focuses on the fact that if the limit is raised to $300,000, FmHA will be serving fewer borrowers with more money. In addition, we recommend: (a)increasing the guaranteed Operating Loan limit from $200,000 to $400,000, (b)increasing the Insured Ownership Loan limit from $200,000 to $300,000, and (c) increasing the guaranteed Ownership Loan limit from $300,000 to $400,000.

3. S. 24 requires that the interest rate on loans deferred, consolidated, rescheduled or reamoratized, not exceed the interest rate on the original loan. We oppose this concept because of the cost involved and the unfairness to those producers who rely on the market for the money they borrow. We recommend instead that the interest rates be variable to reflect the market conditions over the term of a loan.

We support the provisions in the bill calling for:

1. Discretionary, rather than mandatory, use of the Economic Emergency program.
2. The requirement that at least 20 percent of the Operating and Ownership loan funds be designated for limited-resource borrowers.

Farm Bureau appreciates the opportunity to testify and would be happy to answer any questions.

STATEMENT OF JOHN HALL, CHAIRMAN, RURAL WATER TASK FORCE, WATER QUALITY ASSOCIATION

The Water Quality Association appreciates this opportunity to comment on S. 765, a bill to amend the Consolidated Farm and Rural Development Act, to reauthorize the Farmers Home Administration for each of the fiscal years 1984, 1985, and 1986.

My name is John Hall. I am Chairman of the Water Quality Association's Rural Water Task Force, and a member of the Association's Board of Directors, as well as President of a franchised water improvement equipment dealership in Adel, Iowa.

With me today are Bruce Workman, also a member of the Association's Board of Directors, and a water improvement equipment businessman from Winter Haven, Florida. Accompanying us is Robert H. Doyle of Washington, D.C., Counsel to the Association.

We appear at these hearings today on the same issue on which we testified last year: in support of that provision of S. 765 which would require the Agriculture Secretary to conduct a study and report the findings thereof respecting the practicality and cost-effectiveness of providing individual on-site water treatment systems in rural areas rather than central or community systems.

To conserve the Committee's time, we will not repeat that testimony at this time, but respectfully request that it be included in the transcript of this year's hearings. For convenience, it, along with supporting documentation, is set forth in the balance of our Statement today.

In its Report of May 26, 1982 (No. 97-422), the Committee, at page 11, expressed its belief that there should be adequate review of the alternative on-site versus central water treatment systems in rural areas, and the Committee noted particular interest in whether the use of systems other than those traditionally granted assistance by FmHA would be beneficial to borrowers and provide better use of limited loan funds.

This is precisely the point of our position. We can only add that this Study would aid in identifying areas for improvement in the FmHA program and facilitate reduction in Government expenditures.

It is our judgment that the time is overdue for some provision to be made requiring FmHA to investigate, study, and seriously consider benefits in relation to costs — particularly in the light of limited resources and expanding national deficits; to act so as to maximize efficiency; to explore the existence and utility of all available alternative approaches to its objectives; and, to adopt the one producing the maximum benefit and minimum societal burden.

We are extremely grateful for the action last year of Committee support for the provision requiring the study of alternative water treatment systems, and we urge passage of the provision in this year's legislation. If there are any questions, we would be happy to respond.

Thank you for permitting us the opportunity to appear again this year in support of a study provision which makes such good sense. Our detailed testimony of last year follows in our Statement.

The Water Quality Association is a nonprofit organization headquartered in the Chicago suburb of Lisle, Illinois, at 4151 Naperville Road. It consists of members who are engaged in the manufacture and in the wholesale and retail distribution of water treatment equipment which, at the point of use, improves both raw and municipally-treated water in the precise quantity and to that particular quality required for any special or general use, whether in homes, in institutions, in commercial establishments, or in all varieties of manufacturing and other industrial occupations.

Through the technologies, products, and processes of point-of-use treatment, water, whether it is needed as working water or as drinking water, or simply as water usually wasted, is treated to the content quality required for the specific use needed, in the amount actually desired, and at the point utilized. This treatment service is provided by this Industry anywhere from a single faucet to a small community, and throughout the entire range in between.

The Point-of-Use Water Treatment Industry consists of more than 200 manufacturers, about 5,000 retailers/distributors/wholesalers, and does nearly $1 billion in annual sales. This Industry employs over 50,000 of our fellow American men and women, it serves in excess of 6 million families and more than ¼ million commercial/industrial/institutional customers. It has the potential for materially assisting governments in assuring water's safety through attainment of goals as well as satisfaction of standards.

Through voluntary membership, some 1500 members of this Industry support the Water Quality Association, the objectives of which are: the facilitation of information exchange, the conduct of educational and community affairs programs, the publication of materials relating to the quality of water, and other functions of a traditional trade association nature which are intended to benefit the public through Industry betterment.

For the information of Committee Members, a detailed description of our Industry and its products, processes, applications, and potentials is provided in the Appendix to this Statement.

The Point-of-Use Water Treatment Industry is capable of, and does fill a need with treatment technologies that exist almost across the whole board and throughout the entire spectrum of possible requirements.

Stated simply, our technology, products, and people can and should be more fully utilized in the attainment of national drinking water goals, in the satisfaction of water needs and standards, in the provision of water supply treated to the quality required by industry, by commercial establishments, by health care and other types of institutions, by other applications on the farm or in the home, and by public and individual needs and desires.

This technology is particularly useful in the smaller rural communities of America, those very communities which have an extremely serious cost problem in meeting government standards. Pages A-5 through A-7 of the Appendix to our Statement explains this issue in detail, including some cost comparison figures which persuasively argue in favor of wider utilization of our Industry's potential at the rural level.

One of the existing barriers to this greater usage arises out of the direct and destructive competition fostered and promoted by government-financed rural water districts. The Farmers Home Administration funds this competition, competition with private enterprise, and it does so at low rates and for long terms.

The effects on our Association's members are not only harmful to these small American businesses, but injure the public as well through the process of displacing utilization of technology which is an alternative water treatment method more preferable in a great many cases to the government-funded central treatment and long line distribution method.

Last September, working with the staff of this Subcommittee's distinguished Member from Iowa, we were able to develop some rather revealing and impressive figures to document the seriousness of this issue and its cost to the government.

These figures, arranged in tabular form, and relating to those rural water districts in the single state of Iowa, are as follows.

LOANS AND PREAPPLICATIONS/APPLICATIONS 9-2-81

NAME	ESTIMATED AMOUNT TO BE FUNDED	FmHA AMOUNT FUNDED	LOAN	GRANT	NUMBER OF USERS	AVERAGE GRANT/ USER	AVERAGE LOAN/ USER	ANNUAL INTEREST SUBSIDY/USER @17% MONEY COST
Rural Water System #1 Hospers, Iowa	$	$ 4,140,200	$ 3,936,000	$ 204,200	813	$ 250	$4841	$ 580
Lyon & Sioux Rural Water System, Inc. George, Iowa		5,471,100	5,267,500	203,600	911	223	5782	694
Cherokee County Rural Water District No. 1 Cherokee, Iowa		7,320,000	5,742,800	1,576,200	900	1751	6380	765
West Central Iowa Rural Water Association Manning, Iowa		7,175,800	6,746,800	429,000	1200	357	5622	675
Rathbun Regional Water Association (Including Wayne, Monroe, Lucas, Appanoose, Davis), Centerville, Iowa		28,652,300	26,395,300	2,257,000	6400	352	4124	495
Napello Rural Water Association Ottumwa, Iowa	704,000	4,361,800	4,315,000	46,800	1543	30	2796	335
Clarke Rural Water District No. 1 Osceola, Iowa		174,000	174,000		77		2260	271
Clearfield Rural Water District, Inc. Clearfield, Iowa		170,000	201,500	91,750	52	1764	3875	465
Shelby County Water District No. 1 Harlan, Iowa		3,380,600	2,477,800	902,800	450	2006	5506	660
Page I Rural Water Association Shenandoah, Iowa		6,199,400	4,553,000	1,646,400	1100	1497	4139	497
Mahaska Rural Water System, Inc. Oskaloosa, Iowa		6,440,400	4,443,400	1,997,000	960	2080	4629	555
Berwick Water District Berwick, Iowa		702,000	360,000	342,000	175	1954	2057	247
Osceola County Rural Water Association Sibley, Iowa		20,200,000	20,000,000	200,000	2200	91	9091	1091

LOANS AND PREAPPLICATIONS/APPLICATIONS 9-2-81 (Continued)

NAME	ESTIMATED AMOUNT TO BE FUNDED	FmHA AMOUNT FUNDED	LOAN	GRANT	NUMBER OF USERS	AVERAGE GRANT/ USER	AVERAGE LOAN/ USER	ANNUAL INTEREST SUBSIDY/USER @ 17% MONEY COST
Clay County Rural Water Association Spencer, Iowa	$	$ 9,150,000	$ 8,150,000	$1,000,000	945	$1058	$8624	$1035
Southern Sioux Rural Water Association Ireton, Iowa		6,218,000	5,718,000	500,000	641	780	8078	969
East Dickinson County Rural Water Assn. Spirit Lake, Iowa WITHDRAWN	5,000,000				626			
Marion County Rural Water Association Knoxville, Iowa		5,330,000	5,130,000	200,000	750	267	6840	821
Warren County Rural Water Association Indianola, Iowa	4,800,000			—	800			
Jasper County Rural Water Association Newton, Iowa		12,449,000	10,449,000	2,000,000	2071	966	5045	605
Poweshiek County Rural Water Association Montezuma, Iowa	9,700,000				1205			
Van Buren County Rural Water Association Keosauqua, Iowa NOT FEASIBLE	676,000			—	200			
Xenia Rural Water Association Woodward, Iowa		3,200,000	3,200,000	—	800		4000	480
Southern Iowa Rural Water Association		1,475,000						
1. Grand River Source Area								
2. Lake Icaria Source Area	4,500,000		1,200,000	275,000				
3. Little River Source Area	8,300,000							
4. Honey Creek Source Area	3,000,000							
5. White Breast Source Area	3,500,000							
Southeast Polk Rural Water District Des Moines, Iowa	2,000,000							
Story County Water Association Nevada, Iowa INACTIVE	9,000,000			—	1450			

The first vertical column identifies those rural water districts in Iowa, categorized by organization.

The third, fourth, and fifth vertical columns indicate the amount of Federal funding involved, broken down by loans and grants per rural water district.

The sixth shows the number of users per district, and the eighth the amounts of loans per user.

The last vertical column indicates the Federal Subsidy per user per year based on the difference, at the time of the figures' compilation, between the cost per user per year at the amount of interest charged for the loan by the Farmers Home Administration as compared to the 17% then charged by the open market.

In other words, the Federal Government is not only competing directly with private industry by displacing the small businessman, but is doing so at rates far below the market and at prices and terms which no one else can even consider.

This practice, furthermore, amounts to a budget deficit aggravation through provision of direct subsidy. The figures clearly illustrate this fact.

In the first horizontal column, for instance, the difference between the 17% market rate for interest on the $4,841 loan and the Farmers Home Administration rate is $580 per user per year. Multiplied by the number of users in that particular district, the Federal Subsidy for that single district in Iowa alone is $471,540 per year.

Over the 40-year customary life of such loans, this amounts to almost $19 million. For the 813 users, it totals $23,200 per individual user.

And this example, significantly, only relates to one state--Iowa. It includes only 813 people in the single district. There are other districts--many others. The last horizontal column, for instance, would compute to more than twice the cost, as over 2,000 users are involved in this district. There are, in addition, many other states as well.

This is Federal Subsidy money. It competes with private enterprise. It's a lot of money. In these times of budget consciousness, the Congress might well be interested in reviewing it.

It's not as though there's no existing alternative to this practice--not as though these users have no choice other than to accept the Federal Subsidy or simply forego water treatment improvement. That's the whole point of our position.

Our Industry has the developed technology and the products ready to service these needs. We're merely being ignored. Not only that, but no one in this Subsidy-provision agency function, to our knowledge, has even considered the desirability of conducting a study of the feasibility of utilizing these alternative treatment techniques in comparison to the traditional central treatment long line distribution method. Not included in the decisional criteria is what in fact may be better or cost-effective.

It is our judgment that the time is overdue for some provision to be made requiring FmHA to investigate, study, and seriously consider benefits in relation to costs; to act so as to maximize efficiency; to explore the existence and utility of all available alternative approaches to its objectives; and, to adopt the one producing the maximum benefit and minimum cost to society.

We in the Point-of-Use Water Treatment Industry have been attempting for some years to prevail upon the government to at least consider alternative technology in this area. Preferably, we'd like also to be the object of water supply technology selection with customer financing provided by the Federal Government. We'd be content, however, to have the Government simply remove itself as an obstacle to the normal function of free choice and free markets.

APPENDIX

to

Statement of the Water Quality Association

on

S. 765

THE WATER QUALITY ASSOCIATION, HISTORY & ACTIVITIES

The Water Quality Association (WQA) is an international trade association of some 1500 member firms and individuals engaged in the design, manufacture, production, distribution and sale of equipment, products, supplies, and services for producing quality water for specific uses in residential, commercial, industrial and institutional establishments. WQA is a nonprofit organization, the objectives of which are promotion of water quality improvement technology, facilitation of information exchange, conduct of educational and community affairs programs, publication of materials relating to the quality of water, plus other functions of traditional trade association nature intended to benefit the public through industry betterment.

WQA is the result of a merger of two associations in 1974. Together the Water Conditioning Association International and the Water Conditioning Foundation served the Industry from 1945 and 1948, respectively. In addition, the WQA headquarters houses and provides management services to two additional corporations.

The first is the Water Quality Research Council (WQRC). This organization enjoys charitable tax status and is eligible to receive grants from government and private foundations. This Council has funded research on topics such as corrosion, water quality and animal health, soft water beneifts, the effects of waste discharges on aerobic and anerobic septic systems, a study of the significance and control of bacteria in water filters and plumbing systems, and a study on energy savings in water heaters with soft water. WQRC has also sponsored a series of seven international water quality symposiums.

The second organization for which WQA has provided management services is the Water Quality Improvement Standards and Certification Council (Council). This Council was formed in July 1976, and recently became inactive upon completion of its mission. The founding members included manufacturers of water filters, bacteriostatic water treatment units and water purifiers as well as representatives of the National Sanitation Foundation, American Bottled Water Association, The Silver Institute and Water Quality Association. The spark for the Council's creation was provided by the Federal Environmental Protection Agency's very active interest in what was loosely referred to as "home water treatment units." The Council dealt with technical problems, standards writing, labeling and misbranding, and information and education. Since its founding, a major goal of the Water Quality Improvement Standards and Certification Council, was the development of a voluntary standard covering water treatment units and systems used in the improvement of water for human consumption.

THE POINT-OF-USE WATER TREATMENT INDUSTRY

The Point-of-Use Water Treatment Industry is an Industry whose business is improving the quality of water used in our homes, institutions, and business enterprises, and it improves the quality most economically at the point where it is needed and only the quantity required. The Industry provides treatment service anywhere from a single faucet to small communities and everything in between.

According to a survey commissioned by WQA, Ernst & Whinney reports that we are an Industry of over 200 manufacturers, nearly 5,000 retailers, distributors, wholesalers, and nearly $1 billion in annual sales. It is an Industry employing over 50,000 men and women, serving more than 5 million families, and more than ¼ million commercial/industrial/institutional customers.

INDUSTRY PRODUCTS & THEIR APPLICATION

The Point-of-Use Water Treatment Industry has developed a variety of methods for improving water at the point of use. They include:

Filtration -- to remove turbidity, certain types of color and other particulate matter. Removes dirt particles to a rated micron size. This process is used in homes and the food and beverage industries, and wherever an improved water quality is desired for drinking, cooking, ice-making, and so forth. Special microfiltration devices which can remove bacteria are also available.

Adsorption -- the process in which matter adheres to the surface of an adsorbent. An adsorbent is a material, usually solid, capable of holding gases, liquids and/or suspended matter at its surface and in exposed pores. Activated carbon is a common adsorbent used in water treatment which removes chlorine taste, certain organics, and musty and fishy odors. Fluoride removal with activated alumina is a special application of adsorption.

Deionization -- to produce water virtually free of minerals to less than 1 mg/l required in high pressure boilers, metal plating, electronics manufacture, jet engine operation, ice-making, and so forth. Deionization (DI) is often used as part of a purification system which prepares water for use in pharmaceuticals, injection into the body, hemodialysis, and wherever water of extremely high quality is difficult or impossible to improve by other processes. This process also removes nitrates and sulfates.

Distillation -- the process in which water is converted into its vapor state by heating, and the vapor cooled and condensed to the liquid state and collected. Used to remove solids and other impurities from water.

Reverse Osmosis -- used to remove substantially all suspended or dissolved matter from water. A process in which pressure is used to force water through a semi-permeable membrane which will transmit the water but reject most other dissolved ions. Reverse osmosis (RO) may be used alone or as part of a system to prepare water of extremely high quality.

Disinfection -- there are a variety of methods for disinfecting water at the point of use. These include:

Chlorination -- a chlorinator or chemical feed pump is a mechanical device specifically designed to feed chlorine gas or solutions of its compounds, such as hypochlorites, into a water supply in proportion to the flow of water.

Ultraviolet -- a method of water disinfection which employs ultraviolet light to destroy water borne bacteria. Sometimes used in conjunction with other disinfection methods to maintain bacterial quality during storage.

Ozonation -- Ozone (O_3), an unstable form of oxygen and a strong oxidizing agent, is being used as a disinfectant for water.

Iodination -- disinfection method recommended for transient populations and for temporary disinfection.

Bromination -- a disinfection method where bromine is released from impregnated resin cartridges; now used in marine and off-shore applications.

Silver Bacteriostasis -- a method which inhibits bacteriological growth through oligodynamic means.

Oxidation -- the action of an oxidant for precipitating and removing water impurities such as iron, manganese, hydrogen sulfide, and many organics.

Neutralization -- the addition of either an acid or a base as required to produce a neutral solution. The use of alkaline or basic granular materials to neutralize the acidity of some water is a common practice at the point of use.

Cation Exchange Softening -- removes calcium and magnesium, two minerals which seriously impair water's cleaning capabilities and which can deposit a damaging scale in boilers, heaters, plumbing pipes, fixtures, and water-using appliances. Besides its use in homes, where it is essential for bathing, personal grooming, and cleaning, softened water is required by commercial laundries, car washes, restaurants, dairies, beauty salons, and in manufacturing processes such as textile manufacture and those involving steam production. Reduces hardness to less than 17 mg/l and may remove iron, manganese, and other cationic heavy metals depending on their concentrations, to levels below proposed Federal Secondary Regulations. Also removes 90-97% cationic radioactivity.

Chemical Treatment -- a process often used for controlling corrosion which is the destructive disintegration of a metal by electrochemical means. Usually involves the feeding of polyphosphates and/or silicates with a chemical feed pump.

Electrodialysis -- a process in which a direct current is applied to a cell to draw charged ions through ion selective semipermeable membranes, thus removing the ions from the solution.

Combinations of Methods -- in many cases, combinations of the basic methods are used to solve water quality problems. For example, chlorination may be used for disinfection and the precipitation of iron or hydrogen sulfide, which then is removed by filtration. Activated carbon is often used in combination with reverse osmosis treatment to remove low molecular weight organic compounds that pass through the RO membranes.

All of the aforementioned products and processes may be applied at the point-of-use in a variety of ways. This range of alternatives includes a single faucet, selected water lines, full household, and countertop batch process.

Likewise, the range of cost varies, and most products are available for outright sale or for rental from one of thousands of water treatment professionals in our Industry. Rental prices for individual household treatment methods range from $5 to $15 per month, and individual product prices for outright sale from $10 to $1,600.

Finally, the range of effectiveness, or quality of treated water, also covers a broad spectrum.

For example, each of the five disinfection methods—chlorination, ultraviolet, ozonation, iodination and bromination—meet the bacteriological requirements of the Federal Interim Primary Drinking Water Regulations. Filtration at the single faucet may remove dirt particles to a rated micron size of 300 microns to below 1 micron, and full household filtration from 50 microns to 1 micron. Asbestos can be removed to undetectable levels with reverse osmosis or fine filtration. Lead, cadmium and similar heavy metals are reduced by carbon and removed to extremely low levels by ion exchange softening, reverse osmosis, deionization, distillation, and electrodialysis. There are products now on the market capable of removing trihalomethanes to a level below EPA's proposed maximum contaminant level—these include properly designed carbon units and reverse osmosis plus carbon units.

The Point-of-Use Water Treatment Industry is thus capable of, and does fill a need with treatment technologies that exist almost across the whole board, throughout the entire spectrum of possible requirements.

POINT-OF-USE POTENTIAL: SMALL COMMUNITIES, PRIVATE WATER SUPPLIES, NON-COMMUNITY WATER SUPPLIES

The Point-of-Use Water Treatment Industry has developed new technology that can dramatically increase our capability of economically serving the needs of small water systems.

Most everyone is aware that small water systems have an extremely serious cost problem in meeting the primary drinking water standards. The problem, of course, is the requirement of large capital investment in equipment with high operating costs. In addition, the need for trained operating personnel plagues almost every community.

Meeting today's primary standards with yesterday's technology and concepts of central water treatment is just not cost-effective.

In examining the extent of this problem, it becomes apparent that there are three categories of concern. The first area of concern is community water systems. The surprising thing to many is that the overwhelming majority of community water systems are quite small:

25 to 500 people	-	18,022 or 52% of all systems
Under 2,500 people	-	27,804 or 80% of all systems
Under 10,000 people	-	31,946 or 92% of all systems

The second area of concern is the millions of homes on private water supplies. These are truly small water systems—about 10 million residences served by private wells—a segment that is growing by 500,000 private wells a year according to the National Water Well Association. These are permanent homes, second homes, or vacation homes—millions of Americans who cannot be forgotten, although they are not covered by the Safe Drinking Water Act. They are just as concerned however, if not more so, about the quality of the water that they drink.

The third area of concern is the 250,000 non-community water supplies that serve 25 to 30 million Americans. These supplies are, of course, covered by the Primary Drinking Water Act.

Fortunately, our Industry now has the capability, through new water treatment technology and through the standardization of equipment components, to manufacture small packaged systems to correct problems from a specific source of drinking water on a cost-effective basis. And these systems are available today—we don't have to wait until 1985 or 1990.

The biggest problem is the reluctance of the water supply industry and regulatory agencies to accept change.

It has been said in the scientific community, "Don't forget that for any new idea, there are three phases that you have to go through. First, people will abhor the idea; then they will tolerate it; and finally, they will embrace it." Our only objective should be to achieve high quality drinking water at the lowest cost. We should not restrict new technology, but allow the results of research and development of manufacturers, consulting engineers, and governmental agencies to make available new systems without unnecessary restrictions.

These new packaged filtration systems are very dependable and cost-effective. They are ideal for smaller communities, for private water supplies, and for non-community water supplies.

Consideration of the conventional water filtration plant used by large cities reveals that they involve the mixing of chemicals, flocculation basins, sedimentation basins, and huge gravity filtration beds.

By comparison, the new technology results in a small packaged system that is a completely pressurized, closed, filtration system. Water is pumped to a centrifugal separator, a contact clarifier, and a multimedia filter. The resulting water quality is well below 1 NTU which is so important to adequate disinfection. This type of equipment requires little attention by the operator, low capital investment, and low operating costs.

Looking a little more carefully at packaged system components reveals that the centrifugal separator is used instead of settling basins, removing larger particles down to 75 microns with automatic blowdown; then a polymer feed to form a floc to a pressure contact clarifier, where clarification is obtained in five minutes instead of the normal two to four hours; then to a multimedia filter, where filtration occurs completely throughout the bed. All of these are operated under pressure, and this new system reduces waters of 100 to 200 NTU down to below 1 NTU.

Iowa State University filtration tests at the Gilbert, Iowa, treatment plant compared turbidity and iron removal effectiveness of a conventional sand filter versus a new type of multimedia filter. The multimedia filter produced water which was consistently within state requirements. And the service cycle was typically three to four times longer than the single-layer sand filter, even though the multimedia filter was operated at rates up to 7½ gpm per square foot of filtering media.

Another phase of the filtration study was conducted at the Iowa City treatment plant. The conventional treatment plant was compared with a new chemical feed system followed by direct filtration equipment which required only eight minutes of process time. The direct filtration equipment consistently produced water of equal or better quality than the conventional plant, even though it was operated at rates of about 7 gpm per square foot.

One set of tests showed that 31 NTU surface water was typically reduced to 0.6 NTU by direct filtration operating at 7½ gpm per square foot.

COST COMPARISONS

Cost comparisons are also important. In the publication, "State Of The Art Of Small Water Treatment Systems," published by the EPA in August 1977, and reviewed by Black and Veatch, custom versus prefabricated modular systems were evaluated. The first example was the conventional custom system with a capacity of 300,000 gallons per day which could serve a small community of 2,000 to 3,000 people. A capital investment of $454,500 is required for equipment, not counting the land or building. Using a capital recovery factor of 30 years at 8%, you would have an annual capital cost of $40,370 plus a yearly operating cost of $70,355, or a total of $110,725 per year. If this were a small town of 2,000 people with even 600 connections, this would result in $185 per year per connection for filtration alone, or $1.01 per thousand gallons.

Another example used was a packaged conventional water filtration system using the same processes with a capital investment of $209,000. Although this example also amortized the capital over a 30-year period, we believe it is more realistic to use a 20-year period. This results in an annual capital cost of $21,290 plus $12,900 for operating costs . . . a total of $34,190 per year which is $57 per subscriber, or 31¢ per thousand gallons.

If conventional settling tanks are replaced by centrifugal separators and open clarifiers are replaced by contact clarifiers and the single media filters are replaced by a high rate multimedia filter system, this initial investment can be reduced from $454,500 for the custom engineered plant to $154,000. This is 66% lower. And instead of the $209,000 investment for the prefabricated packaged conventional plant, the cost of only $154,000 is 26% less, allowing a municipality to produce safe drinking water for only $47 per subscriber, or 27¢ per thousand gallons.

In short, new technology in one type of pre-engineered packaged system allows small municipalities to comply with EPA regulations because they can now afford to comply.

OPERATIONS

There are serious problems in operating water treatment plants. Here again, our Industry has resources and can help. Every small community cannot expect to have a full-time qualified water treatment specialist. One of the subjects discussed at EPA's Small Systems Symposium last November was the circuit rider concept.

What can be done to serve the 30,000 communities that need help? From an Industry viewpoint, there are approximately 3,000 full-time water conditioning and water treatment dealers in America.

These people could be qualified by our Association, the Water Quality Association, with our personnel certification program. As of 1981, almost two-thirds of the WQA membership have successfully participated in the examinations leading to certification under our voluntary certification programs. In 1981 alone, 798 examinations were administered under these programs.

ECONOMICS OF POINT-OF-USE TREATMENT

Out of the present total community water use of 175 gallons per capita per day, less than two gallons per capita per day is used for drinking and cooking. The other 173 gallons per capita are used for purposes such as sprinkling lawns, flushing toilets, irrigation, fighting fires, cleaning streets, laundry, bathing, and industrial uses. This means that to meet the EPA drinking water regulations, 99% of water supplied by communities will be purified to a higher quality level than necessary.

Does this always make economic sense? What is going to be the per capita cost of improvements needed in small communities to comply with Federal regulations? Might not an alternative be more economical than a central system? At the community level, for example, one Ohio town, West Liberty, with 645 connections actually considered free distribution of point-of-use units to each household rather than make $923,000 worth of improvements to its central treatment plant. This is an indication that point-of-use treatment technology is a viable alternative to central treatment plants.

If consumers in Boston want lead removed from their water, it can be done now.

If consumers in Nevada want arsenic removed from their water, it can be done now.

If consumers in Illinois, Iowa, or Pennsylvania want radioactivity removed from their water, it can be done now.

With these point-of-use capabilities, why aren't they more widely used? Why aren't we moving ahead? What is stopping us from our efforts in supplying better water to consumers? The answer is found in certain barriers--barriers arising out of lack of Federal recognition that point-of-use water treatment is a viable, workable, existing and often a less costly alternative. This in turn creates another barrier—a barrier to investment.

In the present situation, even if an industrial company goes ahead, does the research, does the design work, and builds the equipment, it has no assurance that the Government rules are not going to change and put it out of business. Until the situation is clarified, the private sector, depending as it must on investor input, cannot do the job of which it is capable. As a result, public attention and public policy are focused entirely--and in many cases to the consumer's disadvantage—on central water treatment as the only way to go.

GRADES OF WATER

Thus is described the present state of the art in this Industry—without bond issues, without huge construction projects, without delay, without obsolescene--available to consumers today. Point-of-use treatment has the potential for providing or treating water to meet all requirements of both the interim Primary and proposed Secondary Drinking Water Regulations. This alternative can provide water for private systems, small community supplies, non-community supplies and for those persons needing special water--water for illness or during different periods of life, such as nitrate-free water in infancy. Most important, only that water which needs to be of drinking water quality is treated to that quality.

As previously indicated, many consumers have three qualities of water today. Central treatment and the Point-of-Use Water Treatment Industry are presently working together to provide the best quality water for their specific uses. Consumers, thus, have a disinfected "utility grade" water which they use for fire fighting, sprinkling, and other uses where optimum drinking water quality is not essential. They also have a "working grade" water which is softened in the home and used for laundry and bathing. And, finally, they have an "optimum grade" water highly purified at the point-of-use to supply that 1% used for drinking and cooking.

GOVERNMENT

The Water Quality Association thus urges avoidance of single-method, single-minded government regulation in the national goal attainment mechanism. In this respect, we would support legislation which would condition future regulation on the use of flexibility, cost-benefit justification, and reasonableness.

Our Association and its members are of the judgment that the governmental process should be based on at least the following general principles: Decisions must be based on adequate information concerning the need for and consequences of proposed action. Action should be undertaken only when there has been a convincing demonstration that potential benefits to society outweigh potential costs. Net benefits to society should be maximized. The existence and utility of all available alternative approaches to any given regulatory objective should be fully explored, and the one producing the least net cost to society adopted. Regulatory priorities should be determined in such manner as to maximize the aggregate net benefits, taking into account industrial, economic, and all other conditions which are significant to the promotion of the general welfare and attainment of every broad national objective.

We are confident that the employment of such principles will be productive of point-of-use water treatment technology as an acceptable and, in many cases, preferable alternative method of providing safe drinking water.

STATEMENT OF NORMAN DeWEAVER ON BEHALF OF THE AD HOC TASK FORCE ON RURAL WATER-SEWER PROGRAM REFORM

Thank you for giving me the privilege to appear before the Subcommittee. My name is Norman DeWeaver, and I am pleased to be here on behalf of an informal network of field and national groups concerned with the development of water supply and waste disposal facilities in small, low income rural communities -- the Ad Hoc Task Force on Rural Water-Sewer Program Reform.

In testifying before the Subcommittee nearly a year ago, the Ad Hoc Task Force pointed out the need for changes in the enabling legislation for the Farmers Home Administration's water and waste disposal loan and grant programs. A combination of factors threatened to make these programs unworkable. These factors included the doubling of the interest rate on nearly all FmHA water-sewer loans and the substantial reduction in available funds, both of which were superimposed on a complex, confusing set of existing regulations.

We predicted that, as a result of these factors, the programs would no longer serve the smaller, lower income rural communities that need the help the most. We recommended a set of legislative changes to avoid this result.

Unfortunately, the last Congress did not complete action on an FmHA rural development program reauthorization bill. Unfortunately, our predictions appear to have come true.

* 5% interest rate loan funds have been limited by FmHA regulations in such a way that practically no projects qualify for this assistance.

* Changing the interest rate on nearly all projects without changing the grant rate rules created a situation where most of the grant funds in Fiscal Year 1982 were actually used to write down the interest rate on what were supposedly "market rate" loans.

* The program continued in turmoil in the field. Half of the states lost over 10% of the loan funds or over 10% of the grant funds or over 10% of both loan and grant funds allocated to them at the beginning of FY 1982. Seven states lost all of either their loan or their grant funds. Our preliminary analysis seems to indicate that those FmHA State Offices that made some effort to target their funds toward limited income communities were the ones most likely to have lost a significant

portion of their allocations.

- Despite the stated objectives of the President and the Congress, lower income rural communities suffered the most in this process. The combined effect of all the changes simply removed both low interest rate loan and grant assistance from their grasp.

Recent regulatory changes made or proposed by Farmers Home threaten to make an impossible situation even worse.

- The agency introduced a so-called "intermediate" interest rate last July. However, the income ceiling FmHA established to qualify for this rate, combined with the way in which agency field staff calculate a community's income level, put even this rate out of the reach of many lower income rural areas.

- FmHA published new grant rate rules in January. They leave all the old rules and their related problems intact, but add a requirement that a community's income, as calculated by FmHA, must be 85% or less than the statewide non-metropolitan median family income in order for a project to qualify for any grant funds. This has eliminated the vast majority of rural communities from any chance for grant assistance. The inequities in this rule are so flagrant that Congress immediately moved to overturn the rule, at least with respect to the money provided for the program in the new "jobs" bill.

- Still more inequities would result from the project selection system proposed by Farmers Home last October. Non-need based factors, such as whether FmHA has funded other water-sewer projects in the same geographic area, amount to two-thirds to three-quarters of the rating points in the proposed system. Factors related to the merits of a proposed project, such as the community's size, income and need for facilities to alleviate health hazards, would get only one-quarter to one-third of the points in FmHA's proposed system.

The sad state of developments over the year since the Subcommittee's prior hearings make the reforms we advocated then even more urgent now. These changes include basic adjustments in all the key elements of the programs: the interest rate structure, the grant rate determination process and the way in which projects are selected for available assistance. They improve cost-effectiveness by giving communities that need it access to impartial help with their problems, before the community concludes that major facilities construction is the only solution to its problems.

We ask the Subcommittee's support for six changes in the authorization legislation for the FmHA water and waste disposal programs. These are:

1. A set of interest rates which benefit more low and moderate income rural communities. The suggested amendment provides for a graduated set of interest rates, with a 5% rate for all communities whose income is less than 80% of the state non-metro median and which have health problems caused by inadequate water supply or wastewater facilities. A rate of not more than 7% would be established for other communities whose income is not more than 100% of the state non-metro median. This provision provides interest reductions to communities which need them, while denying them to communities which can afford market rates.

2. A grant rate formula based on community income and community size. The amendment provides that the grant rate for each project will be determined by a graduated formula based on the factors which are most related to ability to pay. Communities whose income is less than 80% of the state non-metro median and whose population is less than 1,500 would receive the maximum, 75% rate. No community would be automatically denied access to any grant funds as is the case under the current FmHA regs.

3. Establishment of a project selection system. The suggested amendment provides for a project selection system incorporating three, equally weighted, objective factors -- community size (with the smallest communities receiving priority), community income (with the lowest income communities receiving priority), and the severity of health need -- as a means of deciding which projects get the limited funds available.

4. Incentives for larger, higher income communities to include smaller, lower income rural communities in their project areas. The suggested amendment provides that, in determining interest rates, grant amounts and priority for selection in the case of multi-community projects, the median income and size of the individual rural communities would be used. Including a smaller, poorer community in its project area would qualify a relatively larger and wealthier community for FmHA assistance on more favorable terms.

5. Authorization for a technical assistance program. The amendment provides for the funding of nonprofit technical assistance centers and the earmarking of 2% of Farmers Home water-sewer grant funds for this purpose. Small amounts of such technical assistance funds can save millions of dollars of federal and local funds from being wasted on inappropriate, costly facilities construction projects.

6. Establishment of a predevelopment fund. The amendment provides a predevelopment fund, seeded by 5% of the amount available for water-sewer grants, for those communities which face serious technical problems before they can even complete an application for FmHA assistance.

Taken together, these amendments insure, in simple, predictable ways, that limited FmHA water and waste disposal loan and grant funds are used in those rural areas where the needs are most severe. They promote cost-effectiveness through changes in the grant rate rules, as well as through the creation of the technical assistance and predevelopment fund programs. They do not involve any increases in the fund authorization levels.

These changes will eliminate the current thicket of confusing, contradictory and complex Farmers Home regulations which have made the water-sewer programs unworkable for practically all rural communities.

The Subcommittee, the full Agriculture Committee and the Senate must act on these issues early in this session of Congress. The FmHA water and waste disposal programs are too important to small, low income rural communities to permit the current situation to continue for another year.

Thank you for an opportunity to bring these concerns before the Subcommittee.

Comparison of Interest Rate Provisions:

Pending Bills v. FmHA Regulations

The attached tabulations compare the effect of pending rural development program reauthorization bills and the current FmHA regulations with respect to the eligibility of water and waste disposal projects in rural counties of selected states for reduced interest rate FmHA loan funds and for FmHA grant assistance.

The tabulations demonstrate that many more rural counties qualify for FmHA reduced interest rate and grant assistance under the pending bills than under current agency rules. In many states, roughly twice as many rural counties qualify for such assistance under the pending bills.

Rural Counties* - Florida

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income:	13,606
85% of State Nonmetro Median Family Income:	11,565
80% of State Nonmetro Median Family Income:	10,885

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	4	17
Counties Qualifying for 7% Interest Rate	No Provision	19
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	20	No Provision
Total Qualifying for Subsidy	24 **	36

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census.

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for any grant assistance under current FmHA regulations, as well as the number of counties qualifying for loans at less than market interest rates.

Rural Counties* - Iowa

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income:	15,782
85% of State Nonmetro Median Family Income:	13,415
80% of State Nonmetro Median Family Income:	12,626

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	1	12
Counties Qualifying for 7% Interest Rate	No Provision	51
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	18	No Provision
Total Qualifying for Subsidy	19**	63

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census.

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for grant assistance under current FmHA regulations, as well as the number of counties qualifying for loans at less than market interest rates.

Rural Counties* - North Dakota

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income:	15,346
85% of State Nonmetro Median Family Income:	13,044
80% of State Nonmetro Median Family Income:	12,277

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	2	13
Counties Qualifying for 7% Interest Rate	No Provision	26
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	17	No Provision
Total Qualifying for Subsidy	19 **	39

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census.

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for any grant assistance under current FmHA regulations, as well as the number of counties qualifying for loans at less than market interest rates.

Rural Counties* - North Carolina

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income:	14,091
85% of State Nonmetro Median Family Income:	11,977
80% of State Nonmetro Median Family Income:	11,273

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	4	19
Counties Qualifying for 7% Interest Rate	No Provision	38
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	23	No Provision
TOTAL QUALIFYING FOR SUBSIDY	27**	57

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for any grant assistance under current FmHA regulations, as well as the number of counties qualifying for loans at less than market interest rates.

Rural Counties* - Nebraska

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income:	14,326
85% of State Nonmetro Median Family Income:	12,177
80% of State Nonmetro Median Family Income:	11,461

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	9	27
Counties Qualifying for 7% Interest Rate	No Provision	28
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	32	No Provision
Total Qualifying for Subsidy	41**	55

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census.

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for any grant assistance under current FmHA regulations, as well as the number of counties qualifying for loans at less than market interest rates.

Rural Counties* - Kentucky

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income	12,002
85% of State Nonmetro Median Family Income:	10,202
80% of State Nonmetro Median Family Income:	9,602

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	31	29
Counties Qualifying for 7% Interest Rate	No Provision	32
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	4	No Provision
TOTAL QUALIFYING FOR SUBSIDY	35**	61

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for any grant assistance under current FmHA regulations, as well as the number of counties qualifying for loans at less than market interest rates.

Rural Counties* - Alabama

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income:	12,995
85% of State Nonmetro Median Family Income:	11,046
80% of State Nonmetro Median Family Income:	10,396

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	10	12
Counties Qualifying for 7% Interest Rate	No Provision	23
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	8	No Provision
Total Qualifying for Subsidy	18**	35

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census.

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for any grant assistance under current FmHA regulations as well as the number of counties qualifying for loans at less than market interest rates.

Rural Counties* - Oklahoma

Current Poverty Level:	$ 9,900
State Nonmetro Median Family Income:	12,748
85% of State Nonmetro Median Family Income:	10,836
80% of State Nonmetro Median Family Income:	10,198

	FmHA Regulations	House Bill (H.R. 1190)
Counties Qualifying for 5% Interest Rate	12	13
Counties Qualifying for 7% Interest Rate	No Provision	18
Counties Qualifying for an "Intermediate Rate" (Half-way between market rate and 5%, currently 7.375%)	6	No Provision
Total Qualifying for Subsidy	18**	31

NOTE: Both proposed FmHA regs and House amendments require that a health or safety hazard exist in order for a community to qualify for a 5% loan. Neither the FmHA intermediate rate nor the House 7% rate require the health hazard certification for eligibility. Thus a community with an income low enough to qualify for a 5% loan but with no health problem could still receive the higher subsidized interest rate.

* Counties where one-half or more of the population is non-urbanized, according to 1970 Census.

** The 85% level is also used as the cut-off point for eligibility for any grant assistance. Therefore, this is the number of counties qualifying for any grant assistance under current FmHA regulations as well as the number of counties qualifying for loans at less than market interest rates.

STATEMENT OF BURTON MILNOR
SECRETARY, GOVERNMENT GUARANTEED LOAN COMMITTEE
PUBLIC SECURITIES ASSOCIATION

Madam Chairperson, my name is Burton Milnor. I am Vice President with responsibility for Government Guaranteed Finance for Morgan, Keegan & Company, Inc. of Memphis, Tennessee, a regional New York Stock Exchange member firm. I present this statement in my capacity as Chairman of the Government Guaranteed Loan Committee of the Public Securities Association. The Public Securities Association represents most of the broker/dealers and dealer banks across the country who market U.S. Treasury and Federal agency securities, and securities issued by State and local government.

The Committee which I chair represents substantially all the firms in the Nation involved in providing a market for U.S. Government guaranteed loans to business enterprises. Most of the country's major, well-known securities firms are involved in this activity and are represented on our Committee. Because of the national scope of our members' activities, we are in a position to observe the broad contributions made by the guarantee programs we utilize to the borrowers, the lenders, and their communities.

I would like to address my comments principally to the overall role of the Farmers Home Administration Business and Industrial loan guarantee program in the capital markets.

Ongoing advancement in farm mechanization and weak markets for agricultural products continue to take their toll in farm labor. Rural communities have found that their populations are expanding and that they are being hard hit by unemployment. For example, Stewart County, which is near my home, is a rural area located in Tennessee and experienced an increase in unemployment from 36.4% in November 1981 to

40.9% in February 1982. The inability of the small and medium sized employers to obtain long term capital, whether in the form of credit or in the form of investment, precludes start up of new industry or expansion of existing industry and resultant new jobs.

The B&I program was originally enacted in 1974 because small and medium-sized employers located in rural areas had difficulty raising long-term investment capital. Without the ability to attract money from the private sector, these companies' other sources of funds are generally limited to the commercial banks in their areas. But growing company's capital needs are not, however, easily met by a rural commercial bank. There are three primary reasons for this: (1) Commercial banks in rural communities are usually small independent institutions. It follows that such a bank's net worth is usually small and since the legal lending limit (that amount one bank may lend to one borrower) is a function of net worth, a single rural bank often cannot make a loan large enough to benefit the borrower; (2) Commercial banks are traditionally short-term lenders. While the maximum muturity policy varies from bank to bank, generally, requests for loans with maturities beyond seven years are denied or referred to other types of lenders; and (3) In the rapidly growing parts of the country, the demand for credit typically exceeds the available deposits. Since a bank's total portfolio must be a fraction of its deposits, many rural banks find that they are too illiquid to service many commercial loans which otherwise meet their criteria.

The FMHA guarantee specifically address these three problems and very often enables banks to circumvent them. To begin with, regulatory authorities have ruled that only the non-guaranteed portion of such a loan is counted against legal lending limit. Thus, in theory, a bank may make a loan to a single borrower as much as ten times its legal lending limit. Further, the ability of a bank to sell the guaranteed portion of a loan to the private sector creates liquidity for the lender, and given the further ability to retain a reasonable servicing fee on that portion sold, many banks are willing to compromise their maturity requirements. As a result, the B&I program fills a need which will otherwise not be met by the current banking system.

We believe that the administrative shortcomings in the B&I programs were properly analyzed in 1981 and that sound corrective procedures have been implemented. Over the past two years, criticism of the program has pointed to an increasing default ratio. This is only commensurate with the overall state of the economy as evidenced by a substantial increase of defaults experienced by commercial banks in their portfolios of conventional loans. For example, according to statistics furnished by the Federal Reserve Board, net loan charge offs or losses at the nation's 14,000 insured commercial banks increased from nearly $2.5 billion in 1978 to over $3.7 billion in 1981, more than a 50 percent increase.

Neither our industry nor we expect the lenders and borrowers who receive B&I guarantees are looking for Government subsidies. In our opinion, the B&I program has functioned in a highly successful manner in the past and acting upon the constructive criticism received over the past few years is making great strides toward self-sufficiency. Our Committee believes a self-sufficient B&I program, enabling loans to be made in capital short regions of the country in free market transactions and without interest rate subsidies, will continue to answer any legitimate concerns regarding the B&I program.

Thank you Madam Chairperson.

national grange

1616 H STREET, N.W. WASHINGTON, D.C. 20006 (202) 628-3507

Edward Andersen, Master

March 18, 1983

The Honorable Paula Hawkins
Chairman, Agricultural Credit
and Rural Electrification Committee
322 Russell Senate Office Building
Washington, D.C. 20510

Dear Madam Chairman:

The National Grange is pleased to have this opportunity to comment on farm credit legislation pending before the House of Representatives. We urge quick action on farm credit legislation that will provide financially distressed producers with sufficient funds to carry them through one of the worst economic periods in the history of American agriculture. However, we do not believe that the solution to today's agricultural depression can be solved simply by providing easier and cheaper credit to the nation's farmers. In fact, part of our problems have been caused by easy access to credit without due consideration given to the borrower's ability to repay.

In general, the National Grange has been pleased with the improvement in the operation of the FmHA farm loan programs. We have made repeated calls for more emphasis to be placed on loan programs that serve production agriculture and less on nonfarm loan programs. Therefore, we support the elimination of, or reduction in, FmHA nonfarm loan programs.

The Grange, along with many members of Congress and other farm organizations, has been critical of Farmers Home for the long delay in obtaining loan approval and the lack of supervision from FmHA state and local offices of farm ownership and operating loans. The work load caused by the supervisors of nonfarm loan programs is partially responsible for the breakdown of farm loan supervision. We have seen considerable improvement in the time lag between application and decisions on farm loans and in management assistance to FmHA agricultural borrowers, but more work in this area is needed. We urge this committee to continue its oversight authority over the general operation of the Farmers Home Administration to assure progress in adding family farmer. Only in this way can FmHA borrowers be graduated to other nongovernment lending institutions.

The National Grange has requested from this Administration and the previous Administration that a Farmer Home Task Force be appointed to conduct detailed study of the Farmers Home Administration. Such a task force should concentrate its study on loan programs administered by FmHA, loan policies that guide loan decisions and better utilization of local FmHA committees. The task force should be composed of representatives from FmHA state and local offices, local FmHA committees, borrowers and other financial institutions. The goal of the task force should be to make FmHA more responsive to the credit needs of family farmers and beginning farmers.

We are in general agreement with the actions taken by the FmHA in meeting the credit crunch that exists among certain segments of agriculture. However, we do not believe that the financial situation in agriculture calls for a mass infusion of cheap credit. We have criticized the Farmers Home administrators that not enough emphasis has been placed on informing the borrower of the alternatives available to him when his/her loan becomes delinquent or his application is denied. The directives may go forth from Washington but there has been little follow throughto see that the directives are carried out at the state and local level. We believe that more authority placed in the local FmHA committees could improve upon this area of administration of FmHA farmer loan programs.

Operating Loans: The National Grange will support increasing the total amount of funds available for operating loans in fiscal 1983 and 1984. However, we do not agree that the individual loan limits need to be increased to the levels in pending legislation or those proposed by the Administration in the FY'84 agriculture budget. The proposed increases would benefit a small number of larger farms but could reduce the total number of farmers able to borrow from FmHA.

Loan Defferal: The National Grange is opposed to legislation which would grant a blanket moratorium on the repayment of FmHA farm loans. This legislation would put into law some of the criteria which FmHA uses in considering whether to grant or not to grant a deferral and therefore it is claimed that it does not constitute a moratorium. The burden of proof would remain with the farmer. However, the acceptance by FmHA of the farmer's proof is a judgment placed on FmHA. It can be subject to a court's interpretation which could lead to a moratorium on all loan repayments, we therefore must oppose any further restrictions on the discretion of the Secretary of Agriculture.

Economic Emergency Loans: The National Grange believes that there is a need for an EE loan program to meet the present emergency that has been created by the economic stress agriculture is experiencing. A very large group of farmers find themselves in a position of not being able to secure financing from their usual commercial sources and are too large, either in size of the loan required or do not qualify under FmHA definition of a family farm.

The problem is being addressed by FmHA by proposing to increase the regular FmHA loan limits and changing their definition of a family farm so as to include larger farm operations. As we have stated, we are opposed to increasing the loan limit and are opposed to changing the size definition. The FmHA historically has been the lender of last resort for family farmers unable to acquire needed capital from conventional lending sources. But caution must be exercised to avoid granting undue advantage to large operations at the expense of family-sized family units. We do not want to see the FmHA move from this traditional role and become the lending agency for large commercial farming units. Increasing loan limits and changing the size definition could be the start of such an agency.

We would therefore support a mandatory, short-term EE loan program to meet the above referred to credit gap. We do not believe the funds need to be increased beyond the present $600 million authorization. We also would recommend that the individual loan limit be set at $200,000.

Disaster Emergency Loans: The National Grange supports an Emergency Disaster Loan program as a part of the FmHA loan programs available to farmers. But again, caution must be used in setting up or continuing ED loan programs. The credibility of such programs must be preserved if they are to be available in the future to meet disaster inflicted on agricultural producers. We would recommend that a limit be placed on the size of the loan that would be eligible for less than commercial interest rates and that to be eligible, a borrower must meet the historic FmHA credit elsewhere test.

We appreciate this opportunity to present the views of the National Grange. We request that this statement be included in the hearing record.

Sincerely,

Edward Andersen

Edward Andersen, Master
The National Grange

STATEMENT OF

PAUL R. SACIA
ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES
NATIONAL FARMERS UNION

Mr. Chairman and Members of the Subcommittee:

I am Paul R. Sacia, Assistant Director of Legislative Services for the National Farmers Union. We appreciate this opportunity to address ourselves to a question which ominously hangs over the agricultural community today, that question being: Has the USDA responded properly in administering its credit policies considering the economic circumstances farmers now face?

Secretary Block, Under Secretary Naylor and FmHA Director Schuman have consistently maintained that they are doing everything within their means to assist farmers during these rough times, the standard USDA refrain being, we are going the second mile with financially distressed farmers.

We can best judge the validity of their claim by evaluating: 1) the farm income situation; 2) the agricultural credit picture; and 3) actual USDA policies and actions.

These times in agriculture are often compared to the Great Depression. However, in many ways, the comparison does not sufficiently describe the severity of today's problems. As Appendix A shows, the Great Depression included three bad years in succession, with farm prices dropping below 60 percent in 1932. But now we have experienced three devastatingly poor years in a row, culminating in 1982 with farm prices at 57% of parity. Prospects for 1983 are not appearing any brighter and prices received by farmers could very well remain below the 60% of parity level.

The poor cash flow on American farms in the past three years has caused the liquidity situation of farmers to deteriorate rapidly. Thirty years ago, U.S. farmers had $1.11 in cash assets against $1 in debt. Now they have 9.6 cents in cash assets for each dollar of debt.

Incredibly, farm production expenses alone exceeded cash receipts from farm marketings in 1982. And while there are some positive signs of recovery for other sectors of the economy, that cannot be said for agriculture. Burdensome stocks almost dictate that better days are a couple years away.

Obviously, the income and cost of production crunch has caused severe credit difficulties for thousands of our farmers. The greatest burden often falls upon our youngest and best-educated operators who have not built up the equity so important in sustaining oneself through several bad years.

We are seeing a rising tide of farm failures that not only translates into immeasurable human misery but also threatens the very structure of American agriculture as we now know it.

While foreclosure tallies are not the best barometers in measuring credit conditions, it is revealing to note that in 1980 there were 260 foreclosures by the Farmers Home Administration. In 1981, the agency recorded 300 foreclosures. However, in 1982, we started seeing a much different picture. 1982 FmHA foreclosures rose to 844. But more significantly, there were 5908 FmHA liquidations and 1245 bankruptcies, not to mention 4313 notices of acceleration, most of which also result in the losing of a farm and the means of supporting a family.

In 1979, only 13 percent of FmHA borrowers were delinquent, compared to today's 28 percent figure. The dollar amount delinquent has more than tripled in just three years.

This tide of distress is rapidly flowing over into the Farm Credit System. The Farm Credit Administration projects that 4383 farm credit borrowers were in the process of being liquidated in 1982, twice as many liquidations as last year. Federal land banks are reporting a 30 percent increase in delinquent borrowers for 1982. None of this, of course, even touches upon difficult financing conditions in the commercial market.

Now let us examine how the Administration has responded in relation to the plight of many of today's farmers.

First, and in an action highly symbolic to farmers, the USDA chose not to spend one cent of the $600 million in Economic Emergency loan money Congress appropriated for Fiscal Year 1982, although the use of such funds would not have resulted in a significant expense, as repayment of outstanding loans largely finances this program.

Equally disturbing have been the Department's efforts in implementing the Limited Resource Operating Loan Program. It failed to use more than $121 million of operating loan money specifically earmarked for limited resource borrowers, meaning that only 54 percent of the appropriated $265 million was provided to qualified farmers. This represents the first time FmHA has not met Congress' established limited resource loan quota and it resulted in approximately 4990 unserved borrowers.

Appendix B shows a state-by-state breakdown one month before the end of Fiscal Year 1982. (Final year-end figures varied slightly.) The chart shows a great disparity in state-by-state usage of limited resources operating loans for Fiscal Year 1982.

For the first quarter of Fiscal Year 1983, FmHA is showing even less commitment to limited resource borrowers than in Fiscal Year 1982.

Commitment of Operating Loan Money to Limited Resource Borrowers

October, 1981 - 11½%	October, 1982 - 10¼%
November, 1981 - 15%	November, 1982 - 13½%
December, 1981 - 15-3/4%	December, 1982 - 13¼%

We can only hope that the first quarter of Fiscal Year 1983 does not accurately represent their intentions in availing limited resource funds.

A third cause of consternation amongst our members has been the Department's handling of the Emergency Disaster Loan Program. Senator Thomas Eagleton served us all by requesting an opinion by the Comptroller General which resulted in confirming his belief that the FmHA "has followed and continues to follow a policy which illegally denies farmers access to the Emergency Disaster Loan Program."

The Comptroller asserted that the Secretary for two years now has ignored the clear mandate under the Consolidated Farm and Rural Development Act that all farmers who have suffered a minimum loss of 30 percent be eligible for disaster loans.

The USDA capriciously used a guideline limiting the availability of emergency loans to counties in which there was a 30 percent dollar loss to all cash crops grown in the county instead of basing availability of the program on losses suffered by individual farmers. The Comptroller General opined, "He (the Agriculture Secretary) may not conduct the program under a policy which systematically excludes individual farmers made eligible by the statute."

We concurred with Senator Eagleton when he said, "To illegally deny farmers even the opportunity to apply for an emergency loan is unconscionable. Yet the practice persists as the policy of this Administration."

While such public condemnations have caused favorable adjustments to be made in the program, the fact is that the public should never have to deal with such flouting of the law. One can only ask what sort of spirit pervades our Department of Agriculture at this critical juncture in our agricultural history.

For obvious reasons, we are extremely pleased to support the Emergency Agricultural Credit Act of 1983, and we thank Senator Huddleston and the cosponsors who worked so diligently to have S. 24 favorably reported from the Committee.

We have no criticisms whatsoever of S. 24, but would like to make a couple of suggestions.

Loan Deferrals - It is important that when a farmer satisfies the first two conditions for a loan deferral, [1) that the farmer be a proven good manager, and (2) that he suffer from circumstances beyond his control] that he not be tripped up by the third rather fuzzy condition, [3) that he have a "reasonable chance" of recovery.] It is our hope that this requirement be made as definitive as possible so as to protect prospective borrowers from unfair discretionary application by FmHA.

Confusion Over Privacy Act - It would be useful if law made it clear to local FmHA officials that the Privacy Act was never meant to keep a "borrower's file" from the borrower. We believe a copy of the file should be made automatically available upon request to the respective borrower. This information is particularly important to the farmer in preparation for appealing FmHA loan decisions.

Again, we thank Senator Huddleston for authoring the Emergency Agricultural Credit Act of 1983 and we applaud the full Agriculture Committee for their speedy approval. This bill is precisely what the doctor ordered. However, we deeply regret that this legislation is so necessary. The USDA has had the means to respond to the farm depression in a responsible and humane way. They have snubbed Congressional intent and needlessly caused misery for thousands of farm families.

We wholeheartedly urge that you work for Senate passage of the Emergency Agricultural Credit Act of 1983, and thank all of you for your time and consideration.

APPENDIX A

NET INCOME OF FARMERS

YEAR	PARITY RATIO	CURRENT $ (Mil.)	CONSTANT $ (1967) (Bil.)	FARM OUTPUT (1967=100)
1910	107	4,158	/1	44
1911	96	3,342	/1	43
1912	98	4,409	/1	48
1913	101	3,680	/1	43
1914	98	4,106	/1	48
1915	94	4,220	/1	49
1916	103	4,469	/1	45
1917	120	8,204	/1	47
1918	119	8,787	/1	48
1919	110	8,985	/1	48
1920	99	7,758	/1	51
1921	80	3,322	/1	45
1922	87	4,299	/1	49
1923	89	5,028	/1	50
1924	89	4,817	/1	49
1925	95	6,698	/1	51
1926	91	5,907	/1	53
1927	88	5,679	/1	52
1928	91	5,966	/1	54
1929	92	6,142	12.9	53
1930	83	4,254	/1	52
1931	67	3,346	/1	56
1932	58	2,038	/1	54
1933	64	2,573	7.6	50
1934	75	2,941	/1	43
1935	88	5,303	/1	52
1936	92	4,332	/1	47
1937	93	6,048	/1	58
1938	78	4,405	/1	57
1939	77	4,489	11.9	58
1940	81	4,570	11.9	60
1941	93	6,573	16.2	63
1942	105	9,924	21.4	70
1943	113	11,822	22.4	69
1944	108	11,807	21.6	71
1945	109	12,411	21.5	69
1946	113	15,252	23.9	72
1947	115	15,544	20.8	69
1948	110	17,789	22.7	75
1949	100	12,926	17.0	75
1950	101	14,000	17.8	74
1951	107	16,334	19.0	76
1952	100	15,337	18.0	79
1953	92	13,278	15.5	80
1954	89	12,691	15.8	80
1955	84	11,767	13.4	82

NET INCOME OF FARMERS

YEAR	PARITY RATIO	CURRENT $ (Mil.)	CONSTANT $ (1967) (Bil.)	FARM OUTPUT (1967=100)
1956	83	11,617	13.2	83
1957	82	11,780	12.5	81
1958	85	13,548	14.8	87
1959	81	11,371	12.0	88
1960	80	12,021	12.8	91
1961	80	12,914	13.3	92
1962	80	13,207	13.2	93
1963	78	11,770	12.8	96
1964	76	10,492	11.2	95
1965	77	12,899	13.5	98
1966	80	13,960	14.3	95
1967	74	12,339	12.3	100
1968	73	12,322	11.8	102
1969	74	14,293	13.0	102
1970	72	14,151	12.4	101
1971	70	14,633	12.3	110
1972	74	18,665	15.1	110
1973	88	33,349	25.0	112
1974	81	26,130	17.2	106
1975	73	24,475	14.6	114
1976	71	18,115	11.2	117
1977	67	20,543	11.3	121
1978	70[2]	28.8 Bil.	14.7	
1979	71	33.4 Bil.[4]	16.3[5]	
1980	64			
1981	62			
1982	57			

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1. Data in constant dollars not available.
2. Estimate, USDA figures due 6/29/79.
3. 5-Month average.
4. First quarter at annual rate.
5. Preliminary.

APPENDIX B

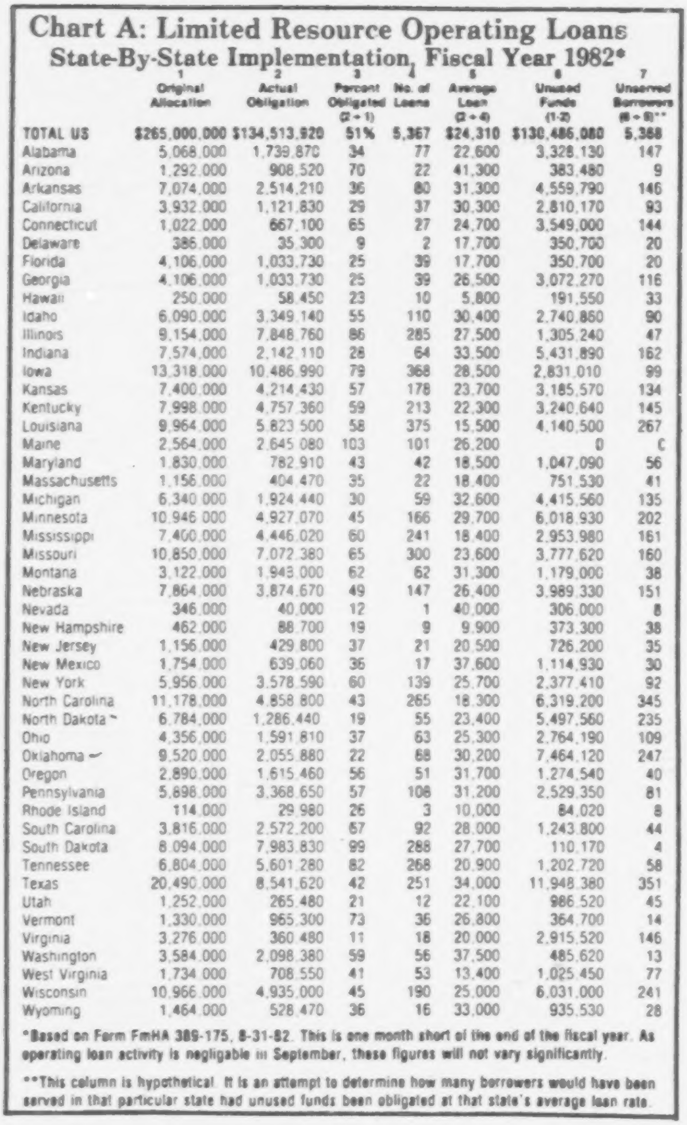

Chart A: Limited Resource Operating Loans
State-By-State Implementation, Fiscal Year 1982*

	1 Original Allocation	2 Actual Obligation	3 Percent Obligated (2 ÷ 1)	4 No. of Loans	5 Average Loan (2 ÷ 4)	6 Unused Funds (1-2)	7 Unserved Borrowers (6 ÷ 5)**
TOTAL US	**$265,000,000**	**$134,513,920**	**51%**	**5,367**	**$24,310**	**$130,486,080**	**5,368**
Alabama	5,068,000	1,739,870	34	77	22,600	3,328,130	147
Arizona	1,292,000	908,520	70	22	41,300	383,480	9
Arkansas	7,074,000	2,514,210	36	80	31,300	4,559,790	146
California	3,932,000	1,121,830	29	37	30,300	2,810,170	93
Connecticut	1,022,000	667,100	65	27	24,700	3,549,000	144
Delaware	386,000	35,300	9	2	17,700	350,700	20
Florida	4,106,000	1,033,730	25	39	17,700	350,700	20
Georgia	4,106,000	1,033,730	25	39	26,500	3,072,270	116
Hawaii	250,000	58,450	23	10	5,800	191,550	33
Idaho	6,090,000	3,349,140	55	110	30,400	2,740,860	90
Illinois	9,154,000	7,848,760	86	285	27,500	1,305,240	47
Indiana	7,574,000	2,142,110	28	64	33,500	5,431,890	162
Iowa	13,318,000	10,486,990	79	368	28,500	2,831,010	99
Kansas	7,400,000	4,214,430	57	178	23,700	3,185,570	134
Kentucky	7,998,000	4,757,360	59	213	22,300	3,240,640	145
Louisiana	9,964,000	5,823,500	58	375	15,500	4,140,500	267
Maine	2,564,000	2,645,080	103	101	26,200	0	C
Maryland	1,830,000	782,910	43	42	18,500	1,047,090	56
Massachusetts	1,156,000	404,470	35	22	18,400	751,530	41
Michigan	6,340,000	1,924,440	30	59	32,600	4,415,560	135
Minnesota	10,946,000	4,927,070	45	166	29,700	6,018,930	202
Mississippi	7,400,000	4,446,020	60	241	18,400	2,953,980	161
Missouri	10,850,000	7,072,380	65	300	23,600	3,777,620	160
Montana	3,122,000	1,943,000	62	62	31,300	1,179,000	38
Nebraska	7,864,000	3,874,670	49	147	26,400	3,989,330	151
Nevada	346,000	40,000	12	1	40,000	306,000	8
New Hampshire	462,000	88,700	19	9	9,900	373,300	38
New Jersey	1,156,000	429,800	37	21	20,500	726,200	35
New Mexico	1,754,000	639,060	36	17	37,600	1,114,930	30
New York	5,956,000	3,578,590	60	139	25,700	2,377,410	92
North Carolina	11,178,000	4,858,800	43	265	18,300	6,319,200	345
North Dakota	6,784,000	1,286,440	19	55	23,400	5,497,560	235
Ohio	4,356,000	1,591,810	37	63	25,300	2,764,190	109
Oklahoma	9,520,000	2,055,880	22	68	30,200	7,464,120	247
Oregon	2,890,000	1,615,460	56	51	31,700	1,274,540	40
Pennsylvania	5,898,000	3,368,650	57	108	31,200	2,529,350	81
Rhode Island	114,000	29,980	26	3	10,000	84,020	8
South Carolina	3,816,000	2,572,200	67	92	28,000	1,243,800	44
South Dakota	8,094,000	7,983,830	99	288	27,700	110,170	4
Tennessee	6,804,000	5,601,280	82	268	20,900	1,202,720	58
Texas	20,490,000	8,541,620	42	251	34,000	11,948,380	351
Utah	1,252,000	265,480	21	12	22,100	986,520	45
Vermont	1,330,000	965,300	73	36	26,800	364,700	14
Virginia	3,276,000	360,480	11	18	20,000	2,915,520	146
Washington	3,584,000	2,098,380	59	56	37,500	485,620	13
West Virginia	1,734,000	708,550	41	53	13,400	1,025,450	77
Wisconsin	10,966,000	4,935,000	45	190	25,000	6,031,000	241
Wyoming	1,464,000	528,470	36	16	33,000	935,530	28

***Based on Form FmHA 389-175, 8-31-82. This is one month short of the end of the fiscal year. As operating loan activity is negligable in September, these figures will not vary significantly.**

****This column is hypothetical. It is an attempt to determine how many borrowers would have been served in that particular state had unused funds been obligated at that state's average loan rate.**

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March 1, 1983

The Honorable Ed Jones
Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Jones:

I am writing in support of proposed legislation that will increase the loan size limits and broaden the eligibility requirements for lenders seeking loan guarantees under the Farmers Home Administration ("FmHA") Business and Industry Program.

Merban Americas Corporation ("Merban") has applied for and been granted approval as an FmHA lead lender and servicer on three occasions since 1980, each time in conjunction with loans of approximately $20 million. We currently have outstanding two additional loan commitments for which we hope to obtain FmHA guarantees.

Merban is a wholly-owned subsidiary of a major trading company, headquartered in New York, which conducts its multi-billion dollar operations in over eighty countries. Merban itself has conducted lending activities worldwide for over fifteen years. We generally act as principal in undertaking the credit, negotiating all loan documentation, closing, participating loan portions with other banking institutions, and servicing the loan on behalf of the lending group. Although participating banks make their own credit decisions, they rely on our organization in connection with documentation and servicing. Our lending staff consists of seasoned personnel drawn primarily from major banking institutions, all individuals with significant credit underwriting and servicing experience.

We feel that Merban is fully capable of fulfilling the responsibilities of an FmHA lender, and have been seeking since 1980 to utilize the Business and Industry Program whenever possible to best serve the needs of our loan customers. The pending changes in FmHA Regulations, proposed last August, would eliminate our company and other similar institutions from even being considered for approval as a lender. We believe that these changes are not in the best interests of FmHA or its goals of enhancing rural development, since many of the best qualified industrial lenders in this country are not chartered as banks, savings institutions, or insurance companies.

We believe that the main responsibility of a servicing organization is to understand the factors that affect the credit standing of a borrower, and to be in a position to monitor such factors in relationship to the terms and conditions of the loan agreement. Institutions such as Merban, with the diversified interests involved in conducting its normal business, are in a unique position to assess the effect of changing markets, trade policies, and financial conditions and react quickly to protect the borrower, FmHA, and our own financial exposure. The majority of institutions that will remain eligible under the pending regulations cannot make this claim in conjunction with financing an industrial term loan.

Our understanding of the purpose for which the FmHA Business and Industry Program was established is to encourage the development of economic activity in rural areas. We strongly urge that the regulation and administration of the Program be structured and conducted to allow the best qualified lenders to lead and service individual loans, regardless of the means by which that lender is chartered to conduct its business. Similarly, we believe that individual loans should be reviewed with the thought of maximizing the effectiveness of each loan dollar in generating economic and social benefit, rather than by the size of the requested guarantee.

We appreciate your consideration of these comments, and hope that they may be of some aid in your deliberations.

Sincerely,

MERBAN AMERICAS CORPORATION

By Stephen P deGot
Stephen P. deGot
Vice President

BELRIDGE CAPITAL CORPORATION
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NEW YORK, N.Y. 10173

(212) 370-0300

February 28, 1983

The Honorable Ed Jones
Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Jones:

I am writing in support of proposed legislation that will increase the loan size limits and broaden the eligibility requirements for lenders seeking loan guarantees under the Business and Industry Program of the Farmers Home Administration.

Our company's business is to arrange financing for industrial and income property projects. We have had many occasions to utilize the FmHA Business and Industry Program in carrying out our responsibilities to clients in rural areas, and therefore believe we have come to recognize and appreciate the Program's strengths and weaknesses. I have personally been involved as a Banker, a finance company loan officer, an employee of an institutional bond trader, and in our current role as borrowers' representative.

The principal purpose of an industrial loan guarantee program for rural areas is to induce an allocation to those areas of the available debt investment monies in the marketplace. In short, to attract investment that would not otherwise be forthcoming. The value to the rural community is an increase and often a diversification of economic activity that results in new employment opportunities, tax revenues, and stability.

The revised regulations governing eligible lenders, currently pending implementation, limit approval to domestic banks, savings institutions, and insurance companies. This requirement will effectively eliminate many of the potential lenders best qualified to carry out the intent of FmHA's programs; including independent finance companies, industrial companies' finance subsidiaries, certain mortgage banking firms, the lending subsidiaries or departments of major investment firms, and U.S. lending institutions that may be over fifty per cent owned by foreign entities.

We strongly believe that the eligibility of a lender should be determined by its ability to extend and service the proposed loan. Many "local" institutions are not staffed or sufficiently experienced to properly monitor businesses requiring sophisticated management and financial controls or subject to market pressures in areas with which the lending institution has no familiarity. The borrower, the community, and the FmHA are in this circumstance far better served by a major industrial finance company with appropriate experience than by a local institution primarily geared to provide credit for merchants, or individuals. The local bank in turn is better served by having a non-bank institution provide the long term industrial financing, as it will then be able to offer its more traditional banking services to the borrower and its employees without competition from the FmHA lender and without exhausting its legal loan limit by absorbing the 5% unguaranteed exposure required by FmHA.

Many larger institutions grant credit on a regional or industry basis, in that they will not provide credit to areas outside their perceived geographical "market" or expertise. A very typical problem that we face in the banking industry is the refusal of a local bank to lead an FmHA loan because it is unfamiliar or uncomfortable with the industry in which the proposed borrower will operate, whereas the banks with comfort in that industry will not grant the credit due to the borrower's being located outside the banks' "market". This is most often the case when an industrial project is located in an agriculturally-oriented community and bank market, and represents a problem that is most often solved by nationwide non-bank institutions with industry expertise and no geographical bias.

The increasing trend toward deregulation of financial institutions will undoubtedly create "hybrid" organizations that do not fit the criteria for eligibility as an FmHA lender. We are seeing this situation now embodied in the creation of term lending functions at several of the large investment banking/brokerage firms; all of which are being staffed by sophisticated, competent personnel. We believe that these organizations would be ideal for participation as an FmHA lender, since they can provide expert credit analysis, secondary market access, and services complementary to local banking institutions.

In summary, we believe that FmHA's loan guarantee programs should be run as a service to the rural community, in that the lender best qualified to provide a successful financing might be presented and approved, regardless of how and by whom it is licensed. Loan amounts should be judged by the economic benefits that will be provided within the context of conditions in the community and available funds rather than by arbitrary loan limits. In this way, FmHA can provide maximum benefits with maximum assurance that the borrower will succeed and the community will prosper.

Thank you for your consideration.

Very truly yours,

BELRIDGE CAPITAL CORPORATION

By Lee A. Williams
Lee A. Williams
President

[The following article was inserted by Senator Hawkins, see p. 6 for oral reference.]

[From the Miami Herald—March 13, 1983]

INDEBTED FARMERS REAP FORECLOSURES—GROWERS SAY FEDERAL AGENCY HAS UNDERMINED AGRICULTURE

(By Anders Gyllenhaal)

GRAND RIDGE, FLA.—The aging hound heard them first and rose with a warning howl. But by the time Jimmie Branch raced outside that morning, the three strangers already had started hauling away his tractor, plows and the big combine.

"I told them, 'Please! No! Don't take the equipment. Don't take it,' " remembers Branch, a gangly Panhandle farmer with tired gray eyes that make him look older than his 37 years. "But they wouldn't listen to me. They wouldn't listen."

The intruders, Branch soon discovered, were agents of the U.S. government. The Farmers Home Administration (FmHA) sent them one morning last spring to repossess his machinery. That was the first round in what has become the first federal case of its kind in Florida.

Left behind on the 20-acre spread, his yard littered with rusty plows and axles, unable to work land frozen in a foreclosure action, Branch is more than a lone litigant fighting the government that once offered him his life's dream.

In hilly, red-clay Jackson County, bordering both Georgia and Alabama, 50 miles northwest of Tallahassee, Branch has become the sad symbol of the modern Florida farmer.

Trapped between rising costs and low prices, farmers who raise vegetables, livestock and citrus are going broke in record numbers. Across the state, 52 percent of the 3,000-plus farmers who borrow from the FmHA to run their farms are unable to make payments. The state ranks second only to Georgia in nationwide delinquency rates.

In Jackson County, soybean and peanut farmers routinely are losing $100,000 to $200,000 each season, building a debt some will never repay. The county's FmHA delinquency rate, for instance, climbed to nearly 70 percent this year—high, but not much higher than rates from Homestead to Jacksonville.

"Low prices. Nothing I can do. I can't pay my loans back," explained Joe Williford, 34, who owes the government $75,000 he borrowed last year to operate his 500-acre farm in nearby Altha. "If it keeps up like this, I'm going to be out of business."

Says Fred Williams of Grand Ridge, Fla., the 59-year-old state chairman of the American Agriculture Movement, himself in debt about $150,000 this year: "We're not making a profit. I'm telling it like it is. If we don't get it soon, we're going to pull the whole economy down with us."

Troubles on Florida farms stem from years of surpluses that have driven prices down and foreign grain embargoes that cut demand. Growing competition came from abroad while freezes, flooding and droughts arrived at home with uncommon regularity the past five years.

But in the view of many farmers, a man-made element has emerged as a chief culprit in their undoing. They say the FmHA—the government agency charged with protecting them—unwittingly has undermined their industry.

Slowly, gradually, farmers have found that the huge infusion of federal cash, totaling some $600 million in Florida since 1977, has helped to rot their once-healthy farm economy and throw off the delicate balance between supply and demand.

"The answer? Abolish the Farmers Home Administration—totally, immediately," said J.D. Swearingen, a farmer, farm-equipment dealer and the mayor of Marianna, Jackson's county seat. "The people who run the FmHA, I wouldn't let them manage a popcorn stand for me."

The seeds of the dilemma were sown in 1977, the year a major drought damaged farms in Florida and throughout the South. The FmHA developed a massive assistance program to resuscitate the country's agriculture and expand farms to meet what appeared to be an unquenchable worldwide demand for food.

"At the time, it seemed like a good idea," said Mitchell Drew, the FmHA's state director. "We couldn't get the money out fast enough. We were trying to set all these farmers up."

LOAN TOTALS JUMP

In Florida, farm-loan totals climbed dramatically; $13 million in 1975, $69 million in 1977, $139 million in 1979, $115 million in 1980 and $118 million in 1981. Ten to

15 per cent of the state's farmers turned to the agency for money, most of them seeking emergency loans or money to cover seasonal planting costs. In theory, their harvests should bring enough money to repay the loans, the interest rates of which varied from about 10 to 13 per cent during the past few years.

"They were just picking people off the streets and making farmers out of them," said David Waldorff, 29, an Altha farmer whose 500-acre operation lost about $40,000 last year. "It was people who never farmed, didn't know how to farm that got all the money."

Not so, FmHA officials say. Farmers had to prove some experience, show they owned or leased a farm and comply with strict reporting guidelines to qualify. Loans also went to some veteran farmers under emergency programs.

But the FmHA will admit that hundreds of ill-equipped farmers with no collateral and little management skill received loans, often amounting to hundreds of thousands of dollars.

Among them was Jimmie Branch of Grand Ridge, then a maintenance man who inherited his 20-acre farm surrounding a dilapidated, box-like home his father built. Branch and his wife signed over their farm as security for loans starting in 1977 that soon grew to $150,000 to plant 800 acres of leased land

"We both were raised up on farms and that's what we always wanted to do," said Sally Branch, 35, born not far from their home on the bend of a dirt road within hearing distance of Interstate 10.

Added her husband: "Did we work that land? Buddy we worked it. We wanted to build a future for our two boys. Give them something."

But farming proved hazardous through the late 1970s. First a drought, then freezes, then another drought and heavy rains came. A 1980 drought arrived while the Branches had their most ambitious crop of soybeans in the ground. They were soon wiped out with a $110,000 debt.

After the FmHA moved to seize and sell the Branches' farm, the couple took the case to U.S. District Court in Tallahassee, where they filed a class-action suit two weeks ago on behalf of the 380 Florida farmers facing foreclosure by FmHA and private banks. The Branches say the agency duped them into more debt than they could handle and failed to help them find ways of working their way out.

The first of its kind in Florida the Branches' case is patterned after a suit that succeeded in blocking FmHA foreclosures throughout Georgia. The government is appealing that decision.

Few farmers face loan cut-offs as the Branches do. The FmHA system was set up to expand as farmers' troubles mounted. A drought or freeze would enable farmers to take out new, unlimited loans to revive their operations. In the five years that the program handed out most of its money, some Florida farmers amassed huge debts.

"Some of them millions of dollars," said George Cochran, the FmHA supervisor for Collier, Hendry and Glades counties, where a mere 12 per cent of the farmers are keeping up with their debts. "We've got several that are over a million dollars."

The system also kept hundreds of farmers in business who normally would have given in to the elements. In hindsight, FmHA officers concede some Florida farms should have been allowed to fail.

Prices began to fall when foreign embargoes went into effect and the farmers, many financed by FmHA, got on their feet. Farmers started producing more than the market could bear, while interest rates and high fuel costs drove their expenses up.

DELINQUENCIES RISE

One result of the falling prices became evident at the annual deadlines for repaying FmHA loans, usually in January. The statewide delinquency rate was climbing: 15 percent in 1978, 23 percent in 1979, 32 percent in 1980, 41 percent in 1981 and 52 percent this past year.

"We were financing a deeper and deeper burial plot for these farmers," said state FmHA director Drew.

Although half of the FmHA borrowers simply have failed to pay their loans this year, the majority of Florida farmers do not have that option because commercial lenders would not permit it.

As a result, the more established farmers have had to use savings, take out second mortages, sometimes sell off their land to absorb the year's losses.

And what was once Florida's blessing has now become something of a curse. The state's year-round season is one reason for the second highest FmHA delinquency rate in the country: Extended growing seasons make farmers that much more vulnerable to the industry's financial woes.

In South Florida, the FmHA delinquency rate varies from abut 40 percent in South Dade to 60 percent in Broward and Palm Beach to as high as 88 percent on the Gulf Coast, where vegetable farming is the most expensive and weather has been the harshest.

As the farmers' troubles reached a peak, the FmHA finally scaled down the loan program. Major farm loans for Florida dropped from $118 million in 1981 to $33 million this fiscal year. Program directors say they will not cut loans to any farmer working in good faith, but they admit screening for money is far more stringent than ever before.

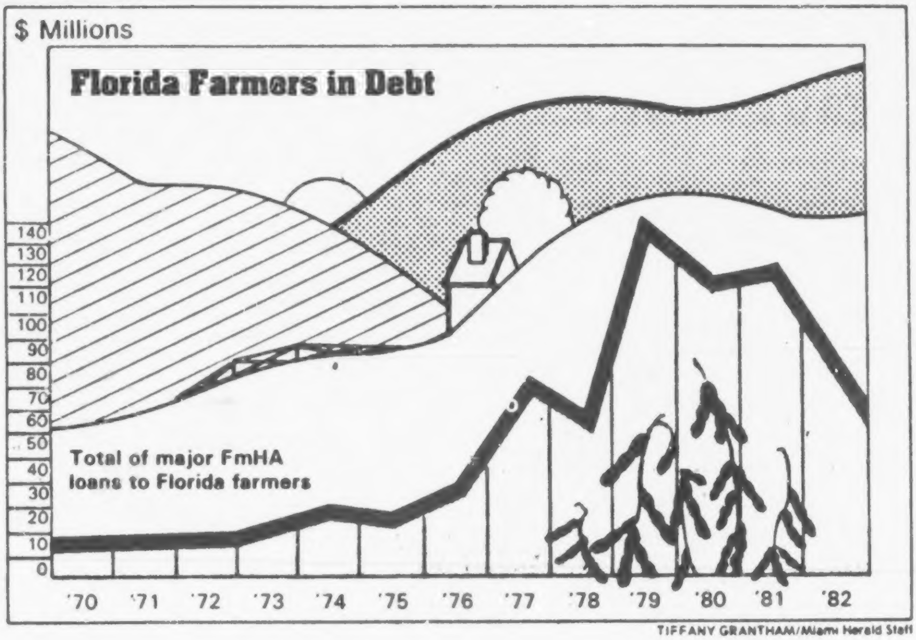
If a debtor shows no signs of repaying, the FmHA will foreclose.

Jimmie Branch was served notice of his case last year as he worked a part-time mechanic job to pay the bills. The FmHA announced it would have to sell the couple's small farm—worth about $20,000—to cover some of their debts.

"It got so I couldn't sleep at night worrying about all this," said Branch. "It's not only ruined my future, it's wrecked my boy's future. What are we going to do?"

The couple's suit is not expected to alter the FmHA's loan program or the dwindling loan totals. It could, however, save the Branch's sloping, two-bedroom home with its wood-burning stove and view of the fallow fields.

"It's all that we left," said Branch. "If they put us out of our house, what can we do? Would we pack up and leave? Where would we go? I don't think there's anything we could do and I just don't think that's right."



TIFFANY GRANTHAM/Miami Herald Staff

II

Calendar No. 57

98th CONGRESS
1st Session

S. 24

[Report No. 98–28]

To provide emergency credit assistance to farmers, and for other purposes.

IN THE SENATE OF THE UNITED STATES

January 26 (legislative day, January 25), 1983

Mr. Huddleston (for himself, Mr. Cochr[illegible] Mr. Boren, Mr. Leahy, Mr. Andrews, Mr. Melcher, Mr. Zorinsky, Mr. Pryor, Mr. Dixon, Mr. Heflin, Mr. Baucus, Mr. Bentsen, Mr. Bumpers, Mr. Burdick, Mr. DeConcini, Mr. Exon, Mr. Glenn, Mr. Kennedy, Mr. Levin, Mr. Metzenbaum, Mr. Nunn, Mr. Randolph, Mr. Riegle, and Mr. Sasser) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

March 18 (legislative day, March 14), 1983

Reported by Mr. Helms, with an amendment

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To provide emergency credit assistance to farmers, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, ~~That this Act may be cited as the "Emergency Agricultural Credit Act of 1983".~~

~~LOAN DEFERRALS AND A MORATORIUM ON FORECLOSURES~~

~~SEC. 2. Section 331A of the Consolidated Farm and Rural Development Act (7 U.S.C. 1981a) is amended by—~~

~~(1) inserting the designation "(a)" before the existing text thereof;~~

~~(2) in the second sentence, striking out "section" and inserting in lieu thereof "subsection"; and~~

~~(3) adding at the end thereof the following new subsections:~~

~~"(b) During the period beginning with the date of enactment of this subsection and ending September 30, 1983, the Secretary shall permit, at the request of the borrower, the deferral of principal and interest on any outstanding loan made, insured, or held by the Secretary for farm ownership purposes under subtitle A of this title, farm operating purposes under subtitle B of this title, disaster emergency purposes under subtitle C of this title, or economic emergency purposes under the Emergency Agricultural Credit Adjustment Act of 1978, and shall forego foreclosure of any such loan, in both cases on a showing by the borrower that the borrower (1) has followed good management practices, (2) due to circumstances beyond the borrower's control, is temporarily unable to continue making payment on such principal and interest when due, and (3) has a reasonable chance of~~

~~repayment of the loan after the deferral of principal and interest and foregoing of foreclosure. The Secretary shall waive the payment of interest that accrues during the deferral period on any loan deferred under the provisions of this subsection. The provisions of this subsection shall be applicable only to borrowers who own or operate family-size farms, as certified by the county committee.~~

~~“(c) Upon the expiration of any period of deferral of payment of principal and interest and foregoing of foreclosure by the Secretary under subsection (b) of this section, the Secretary shall make available to the borrower, at the borrower’s request, procedures whereby the loan may be consolidated, rescheduled, or reamortized to provide equitable repayment terms consistent with the borrower’s farm and financial situation, and any loan so consolidated, rescheduled, or reamortized shall bear interest at a rate not in excess of the rate of interest on the original loan.~~

~~“(d) The Secretary shall promulgate regulations that provide (1) for notification of all farm borrowers under this Act and the Emergency Agricultural Credit Adjustment Act of 1978 of the provisions of this section and all other servicing alternatives offered by the Secretary, (2) clear procedures by which borrowers may petition the Secretary for relief under such provisions and alternatives, and (3) for appeal~~

~~within the Department of Agriculture from a decision that denies relief under such provisions and alternatives.~~

~~"(e) Any farm loan deferred, consolidated, rescheduled, or reamortized under any authority of the Secretary under this title other than under subsections (b) and (c) of this section shall, notwithstanding any other provision of this title, bear interest on the balance of the original loan and for the term of the original loan at a rate not in excess of the rate of interest on the original loan.".~~

~~OPERATING LOAN PROGRAM; LIMITED RESOURCE FARMERS~~

~~SEC. 3. (a) Section 313 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1943) is amended by striking out "$100,000, or, in the case of a loan guaranteed by the Secretary, $200,000" and inserting in lieu thereof "$200,000, or, in the case of a loan guaranteed by the Secretary, $400,000".~~

~~(b) Section 346 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1994) is amended by adding at the end thereof the following new subsections:~~

~~"(c) Notwithstanding any other provision of law, there are hereby authorized to be insured, or made to be sold and insured, from the Agricultural Credit Insurance Fund during fiscal year 1983, insured operating loans in an aggregate amount of $1,660,000,000. Of that amount, $200,000,000~~

~~shall be for new borrowers. As used in the preceding sentence, the phrase 'new borrowers' means agricultural producers who did not receive any farm operating credit from the Farmers Home Administration during fiscal year 1982 or that part of fiscal year 1983 ending on the date of enactment of this subsection.~~

~~"(f)(1) Notwithstanding any other provision of law, not less than 20 per centum of the loans for farm ownership purposes under subtitle A of this title, and not less than 20 per centum of the loans for farm operating purposes under subtitle B of this title, authorized to be insured, or made to be sold and insured, from the Agricultural Credit Insurance Fund during fiscal year 1983 shall be for low-income, limited-resource farmers.~~

~~"(2) The Secretary shall provide notification to all farm borrowers under this Act, as soon as practicable after the date of enactment of the Emergency Agricultural Credit Act of 1983, of the provisions of this Act relating to low-income limited-resource farmers and the procedures by which persons may apply for loans under the low-income, limited-resource farmer program.".~~

~~ECONOMIC EMERGENCY LOAN PROGRAM~~

~~SEC. 4. (a) Section 202 of the Emergency Agricultural Credit Adjustment Act of 1978 (7 U.S.C. prec. 1961 note) is amended by striking out "The Secretary of Agriculture may"~~

~~and inserting in lieu thereof "The Secretary of Agriculture shall".~~

~~(b) Section 211 of the Emergency Agricultural Credit Adjustment Act of 1978 (7 U.S.C. prec. 1961 note) is amended by—~~

~~(1) striking out "September 30, 1982" and inserting in lieu thereof "September 30, 1984"; and~~

~~(2) immediately after "$600,000,000", inserting a comma and "except that, in fiscal year 1983, such $600,000,000 shall be in addition to the total amount of money borrowed under contracts of guarantee entered into under the authorization provided in the Act of December 18, 1982 (Public Law 97-370, 96 Stat. 1799)".~~

That this Act may be cited as the "Emergency Agricultural Credit Act of 1983".

LOAN DEFERRALS

SEC. 2. Section 331A of the Consolidated Farm and Rural Development Act (7 U.S.C. 1981a) is amended by—

(1) inserting "(a)" after the section designation;

(2) in the second sentence, striking out "section" and inserting in lieu thereof "subsection"; and

(3) adding at the end thereof the following new subsections:

"(b) During the period beginning with the date of enactment of this subsection and ending September 30, 1983, the Secretary shall permit, at the request of the borrower, the deferral of principal and interest on any outstanding loan made, insured, or held by the Secretary for farm ownership purposes under subtitle A of this title, farm operating purposes under subtitle B of this title, disaster emergency purposes under subtitle C of this title, or economic emergency purposes under the Emergency Agricultural Credit Adjustment Act of 1978, and shall forego foreclosure of any such loan during the deferral period, in both cases if the borrower can show, to the satisfaction of the Secretary, that the borrower (1) has followed good management practices, (2) due to circumstances beyond the borrower's control, is temporarily unable to continue making payment of such principal and interest when due, and (3) has a reasonable chance of repayment of the loan after the deferral of principal and interest and foregoing of foreclosure. The provisions of this subsection shall be applicable only to borrowers who own or operate family-size farms, as certified by the county committee.

"(c) At the expiration of any period of deferral of principal and interest and foregoing of foreclosure by the Secretary under subsection (b) of this section, the Secretary shall make available to the borrower, at the borrower's request, procedures whereby the loan may be consolidated, rescheduled, or

reamortized to provide equitable repayment terms consistent with the borrower's farm and financial situation, and any loan so consolidated, rescheduled, or reamortized shall bear interest at a rate that is the lower of (1) the rate of interest on the original loan or (2) the rate being charged by the Secretary for loans of the same type at the time of the consolidation, rescheduling, or reamortization.

"(d) The Secretary shall promulgate regulations that provide (1) for notification of all farm borrowers under this title and the Emergency Agricultural Credit Adjustment Act of 1978 of the provisions of this section and all other servicing alternatives offered by the Secretary, (2) clear procedures by which farm borrowers may petition the Secretary for relief under such provisions and alternatives, and (3) for appeal within the Department of Agriculture from a decision that denies relief under such provisions and alternatives.

"(e) Any farm loan, other than a guaranteed loan, deferred, consolidated, rescheduled, or reamortized under any authority of the Secretary under this title other than under subsections (b) and (c) of this section shall, notwithstanding any other provision of this title, bear interest on the balance of the original loan and for the term of the original loan at a rate that is the lower of (1) the rate of interest on the original loan or (2) the rate being charged by the Secretary for loans,

other than guaranteed loans, of the same type at the time of the deferral, consolidation, rescheduling, or reamortization.".

OPERATING LOAN PROGRAM; LIMITED RESOURCE BORROWERS

SEC. 3. (a) Section 313 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1943) is amended by striking out "$100,000, or, in the case of a loan guaranteed by the Secretary, $200,000" and inserting in lieu thereof "$300,000, or, in the case of a loan guaranteed by the Secretary, $400,000".

(b) Section 316(b) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1946(b)) is amended by—

(1) in the second sentence, striking out "seven" and inserting in lieu thereof "fifteen"; and

(2) in the fifth sentence, striking out "The interest rate" and inserting in lieu thereof "Except as otherwise provided for farm loans under section 331A(e) of this title, the interest rate".

(c) Section 346 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1994) is amended by adding at the end thereof the following new subsections:

"(e) Notwithstanding any other provision of law, there are hereby authorized to be insured, or made to be sold and insured, from the Agricultural Credit Insurance Fund during fiscal year 1983, insured operating loans in an aggre-

gate amount of $1,660,000,000. Of that amount, $200,000,000 shall be for new borrowers. As used in the preceding sentence, the phrase 'new borrowers' means agricultural producers, eligible for loans under subtitle B of this title, who did not receive any farm operating credit from the Farmers Home Administration during fiscal year 1982 or that part of fiscal year 1983 ending on the date of enactment of this subsection.

"(f)(1) Notwithstanding any other provision of law, not less than 20 per centum of the loans for farm ownership purposes under subtitle A of this title, and not less than 20 per centum of the loans for farm operating purposes under subtitle B of this title, authorized to be insured, or made to be sold and insured, from the Agricultural Credit Insurance Fund during fiscal year 1983 shall be for low-income, limited-resource borrowers.

"(2) The Secretary shall provide notification to all farm borrowers under this title, as soon as practicable after the date of enactment of the Emergency Agricultural Credit Act of 1983, of the provisions of this title relating to low-income, limited-resource borrowers and the procedures by which persons may apply for loans under the low-income, limited-resource borrower program.".

ECONOMIC EMERGENCY LOAN PROGRAM

SEC. 4 Section 211 of the Emergency Agricultural Credit Adjustment Act of 1978 (7 U.S.C. prec. 1961 note) is amended by—

(1) striking out "September 30, 1982" and inserting in lieu thereof "September 30, 1984"; and

(2) immediately after "$600,000,000", inserting a comma and "except that, in fiscal year 1983, such $600,000,000 shall be in addition to the total amount of money borrowed under contracts of guarantee entered into under the Act of December 18, 1982 (Public Law 97-370, 96 Stat. 1799)".

II

98TH CONGRESS
1ST SESSION

S. 99

To amend the Agricultural Act of 1949 to provide credit assistance to farmers, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. SASSER (for himself and Mr. INOUYE) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Agricultural Act of 1949 to provide credit assistance to farmers, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Emergency Farm Credit Assistance Act of 1983".

EMERGENCY LOANS

SEC. 2. Effective only for the fiscal year ending September 30, 1983, and notwithstanding any other provision of law, the Secretary of Agriculture shall guarantee economic emergency loans under the Emergency Agricultural Credit Adjustment Act of 1978 (7 U.S.C. 1946 note) that will cause contracts of insurance and guarantees of loans made under such Act by such date to equal $600,000,000.

LOAN MORATORIUM

SEC. 3. (a) Notwithstanding any other provision of law and in addition to any other authority that the Secretary of Agriculture may have to defer payments of principal and interest on loans and to forego foreclosure on loans, the Secretary shall permit, at the request of the borrower, the deferral of principal and interest on any outstanding loan made by the Secretary under title III of the Consolidated Farm and Rural Development Act 7 U.S.C. 1921 et seq.) or any other law administered by the Farmers Home Administration, and shall forego foreclosure of any such loan, upon a showing by the borrower that due to circumstances beyond the borrower's control, the borrower is unable to continue making payments of such principal and interest when due without unduly impairing the standard of living of the borrower. The Secretary shall permit interest that accrues during the deferral period on any loan deferred under this section to bear no interest during or after such period, except that, if the security instrument securing such loan is foreclosed such interest as is included in the purchase price at such foreclosure shall become part of the principal and draw interest from the date of foreclosure at the rate prescribed by law.

(b) This section shall expire two years after the date of the enactment of this Act.

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II

98TH CONGRESS
1ST SESSION

S. 124

To amend the Agricultural Act of 1949 to provide emergency relief for farmers, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. ZORINSKY introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Agricultural Act of 1949 to provide emergency relief for farmers, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Emergency Farm Relief Act of 1983".

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Sec. 111. Wheat.
Sec. 112. Feed grains.
Sec. 113. Upland cotton.

Subtitle C—Miscellaneous Conforming Amendments

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Sec. 601. White House Conference on Agriculture.

TITLE I—CROPLAND CONSERVATION AND ACREAGE LIMITATION PROGRAMS FOR 1984 AND 1985 CROPS

SUBTITLE A—CROPLAND CONSERVATION PROGRAM

SEC. 101. Effective only for the 1984 and 1985 crops, title I of the Agricultural Act of 1949 is amended by inserting after section 107C the following new section:

"CROPLAND CONSERVATION PROGRAM

"SEC. 107D. Notwithstanding any other provision of law—

"(a)(1) The Secretary shall proclaim a national cropland conservation program for each of the 1984 and 1985 crops of wheat, feed grains, upland cotton, and rice.

"(2) Under the program proclaimed under paragraph (1), a producer of a commodity covered by the program who participates in the program—

"(A) may not produce the commodity on more than—

"(i) 80 per centum of the portion of the producer's land normally planted to the commodity, as determined by the Secretary and as adjusted as deemed necessary by the Secretary to be fair and reasonable among producers; or

"(ii) such greater per centum of the portion of the producer's land normally planted to the commodity than the per centum prescribed in clause (i) as the Secretary may establish with respect to the commodity after taking into consideration the estimated quantity and quality of the stocks of the commodity in the United States that would be available for the period covered by the program to ensure the maintenance of adequate but not excessive stocks in the United States, to provide a continuous and stable supply of the commodity needed in the United States and in foreign countries, and for purposes of national security; and

"(B) shall devote the balance of the acreage on the portion of the producer's land normally planted to the commodity to such conservation uses as the Secretary may by regulation prescribe.

The regulations issued by the Secretary with respect to acreage required to be devoted to conservation uses shall ensure protection of such acreage from weeds and wind and water erosion. The Secretary may permit, subject to such terms and conditions as the Secretary may prescribe, all or any part of such acreage to be devoted to sweet sorghum, hay, and grazing or the production of guar, sesame, safflower, sunflower, castor beans, mustard seed, crambe, plantago ovato, flaxseed, triticale, rye, or other commodity, if the Secretary determines that such production is needed to provide an adequate supply of such commodities, is not likely to increase the cost of any price-support program, and will not affect farm income adversely. In determining the amount of land to be devoted to conservation uses with respect to land that has been farmed under summer fallow practices, as defined by the Secretary, the Secretary shall consider the effects of soil erosion and such other factors as the Secretary considers appropriate. Any land devoted to conservation use may be used for wildlife food plots or wildlife habitat in conformity with standards established by the Secretary in consultation with wildlife agencies. The Secretary may pay an appropriate share of the cost of practices designed to carry out the purposes of the foregoing sentence. The Secretary may provide for an additional payment on such acreage in an amount determined by the Secretary to be appropriate in relation to the benefit to the general public if the producer agrees to permit, without other compensation, access to all or such portion of the farm as the Secretary may prescribe, by the general public, for hunting, trapping, fishing, and hiking, subject to applicable State and Federal regulations.

"(b)(1) The Secretary shall proclaim the program required under subsection (a) no later than June 1 of the calendar year preceding the calendar year in which the commodities covered by the program are harvested.

"(2) No later than July 1 following the proclamation of the program, the Secretary shall conduct a referendum, by secret ballot, among producers who will produce and harvest commodities covered by the program proclaimed under subsection (a), to determine whether the producers are in favor of or opposed to the program. The Secretary shall announce the results of the referendum within thirty days after the date on which it is held.

"(c) If more than 45 per centum of the producers voting in the referendum held under subsection (b) disapprove the program proclaimed under subsection (a), the Secretary shall announce that the program will not be in effect with respect to commodities covered by the program.

"(d)(1) If 55 per centum of the producers voting in the referendum held under subsection (b) approve the program proclaimed under subsection (a)—

"(A) the level of loans and purchases for commodities covered by the program shall be not less than—

"(i) $4.35 per bushel for wheat;

"(ii) $3 per bushel for corn;

"(iii) 71 cents per pound for upland cotton; and

"(iv) $9 per hundredweight for rice;

"(B) the established prices for commodities covered by the program shall not be less than—

"(i) $4.71 per bushel for wheat;

"(ii) $3.28 per bushel for corn;

"(iii) 83 cents per pound for upland cotton; and

"(iv) $11 per hundredweight for rice; and

"(C) a producer who does not comply with subsection (a)(2) may not be eligible, during the calendar year in which the commodity is harvested and during the immediately succeeding calendar year, for loans, purchases, payments, or other benefits under this Act or the Commodity Credit Corporation Charter Act.

"(2) The Secretary may provide by regulation for exceptions to paragraph (1)(C) for a producer who is able to establish to the satisfaction of the Secretary that the producer unintentionally or unknowingly did not comply with subsection (a)(2).

"(3) An operator of a farm desiring to participate in the program conducted under this section shall execute an agreement with the Secretary providing for such participation not later than such date as the Secretary may prescribe. The Secretary may, by mutual agreement with the producers on the farm, terminate or modify any such agreement if the Secretary determines such action necessary because of an emergency created by drought or other disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

"(e) The Secretary shall issue such regulations as may be necessary to carry out this section.".

SUBTITLE B—ACREAGE LIMITATION PROGRAM

WHEAT

SEC. 111. Effective for the 1984 and 1985 crops of wheat, section 107B of the Agricultural Act of 1949 (7 U.S.C. 1445b-1) is amended by—

(1) in subsection (c)(3), striking out "subsection (e)(2)" each place it appears and inserting in lieu thereof "subsection (e)(1)(B)";

(2) in subsection (e)—

(A) Amending paragraph (1)(A) to read as follows:

"(1)(A) If producers disapprove a national cropland conservation program proclaimed for a crop of commodities under section 107C and the Secretary determines that the carryover of wheat at the beginning of the marketing year that begins in the calendar year of the disapproval exceeds 5 per centum of the quantity of wheat consumed worldwide during the one-year period preceding the marketing year, then the Secretary shall establish an acreage limitation program for each of the 1984 and 1985 crops of wheat. The Secretary shall announce any such wheat acreage limitation program not later than August 15 prior to the calendar year in which the crop is harvested.";

(B) striking out paragraph (1)(B);

(C) in paragraph (2)—

(i) in the first sentence—

(I) striking out "paragraph (1) of this subsection" and inserting in lieu thereof "subparagraph (A)"; and

(II) inserting "of not less than 20 per centum" after "reduction";

(ii) in the third sentence, striking out "paragraph" and inserting in lieu thereof "subparagraph";

(iii) striking out the sixth sentence;

(iv) in the seventh sentence—

(I) striking out "(A)" and inserting in lieu thereof "(i)"; and

(II) striking out "(B)" and inserting in lieu thereof "(ii)";

(v) in the ninth sentence, striking out "paragraph (1) of this subsection" and inserting in lieu thereof "subparagraph (A)";

(vi) adding at the end thereof the following new sentence: "If an acreage limitation program is announced under subparagraph (A) for a crop of wheat, the Secretary shall make available loans and purchases for the crop under subsection (a) at a level that is equal to 105 per centum of the level that would have been established for the crop under such subsection but for the operation of this sentence."; and

(vii) redesignating such paragraph as subparagraph (B);

(D) striking out paragraph (3) and inserting in lieu thereof the following new subparagraph:

"(C) If an acreage limitation program is announced under subparagraph (A) for a crop of wheat, a producer may enter into an agreement with the Secretary under which—

"(i) the producer shall agree to withdraw from production (in addition to the acreage withdrawn from production under subparagraph (B)) and devote to conservation uses, in accordance with regulations issued by the Secretary, 15 per centum of the applicable acreage base established under subparagraph (B); and

"(ii) the Secretary shall agree to make available (in lieu of amounts made available under the last sentence of subparagraph (B)) loans and purchase to the producer for the crop under subsection (a) at a level that is equal to 115 per centum of the level that would have been established for the crop under subsection (a) (without regard to the last sentence of subparagraph (B)) but for the operation of this subparagraph.";

(E) in paragraph (4)—

(i) in the first sentence, striking out "paragraphs (2) and (3) of this subsection" and inserting in lieu thereof "subparagraphs (B) and (C)";

(ii) in the second sentence, striking out ", hay and grazing";

(iii) inserting after the second sentence the following: "The Secretary shall permit, subject to such terms and conditions as the Secretary may prescribe, all or any part of such acreage to be devoted to hay and grazing.";

(iv) in the last sentence, striking out "or set-aside"; and

(v) redesignating such paragraph as subparagraph (D);

(F) in paragraph (5)—

(i) in the first sentence, striking out "or set-aside";

(ii) striking out the sixth through tenth sentences; and

(iii) redesignating such paragraph as paragraph (2);

(G) in paragraph (6)—

(i) in the first sentence, striking out ", set-aside acreage,"; and

(ii) redesignating such paragraph as paragraph (3); and

(H) redesignating paragraph (7) as paragraph (4); and

(3) in subsection (k), striking out "subsection (e)(2)" and all that follows through the end thereof and inserting in lieu thereof "subsection (e)(1)(A).".

FEED GRAINS

SEC. 112. Effective for the 1984 and 1985 crops of feed grains, section 105B of the Agricultural Act of 1949 (7 U.S.C. 1444d) is amended by—

(1) in subsection (c)(3), striking out "subsection (e)(2)" each place it appears and inserting in lieu thereof "subsection (e)(1)(b)";

(2) in subsection (e)—

(A) amending paragraph (1)(A) to read as follows:

"(1)(A) If producers disapprove a national cropland conservation program proclaimed for a crop of commodities under section 107C and the Secretary determines that the carryover of feed grains at the beginning of the marketing year that begins in the calendar year of the disapproval exceeds 18 per centum of the quantity of feed grains used domestically and for export by the United States during the one-year period preceding the marketing year, then the Secretary shall establish an acreage limitation program for each of the 1984 and 1985 crops of feed grains. The Secretary shall announce any such feed grain acreage limitation program not later than November 15 prior to the calendar year in which the crop is harvested.";

(B) striking out paragraph (1)(B);

(C) in paragraph (2)—

(i) in the first sentence—

(I) striking out "paragraph (1) of this subsection" and inserting in lieu thereof "subparagraph (A)"; and

(II) inserting "of not less than 20 per centum" after "reduction";

(ii) in the third sentence, striking out "paragraph" and inserting in lieu thereof "subparagraph";

(iii) in the fourth sentence, striking out "paragraph" and inserting in lieu thereof "subparagraph";

(iv) striking out the seventh sentence;

(v) in the eighth sentence—

(I) striking out "(A)" and inserting in lieu thereof "(i)"; and

(II) striking out "(B)" and inserting in lieu thereof "(ii)";

(vi) in the tenth sentence, striking out "paragraph (1) of the subsection" and inserting in lieu thereof "subparagraph (A)";

(vii) adding at the end thereof the following new sentence: "If an acreage limitation program is announced under subparagraph (A) for a crop of feed grains, the Secretary shall make available loans and purchases for the crop under subsection (a) at levels that are equal to 105 per centum of the level that would have been established for the crop under such subsection but for the operation of this sentence."; and

(viii) redesignating such paragraph as subparagraph (B);

(D) striking out paragraph (3) and inserting in lieu thereof the following new subparagraph:

"(C) if an acreage limitation program is announced under subparagraph (A) for a crop of feed grains, a producer may enter into an agreement with the Secretary under which—

"(i) the producer shall agree to withdraw from production (in addition to the acreage withdrawn from production under subparagraph (B)) and devote to conservation uses, in accordance with regulations issued by the Secretary, 10 per centum of the applicable acreage base established under subparagraph (B); and

"(i) the Secretary shall agree to make available (in lieu of amounts made available under the last sentence of subparagraph (B)) loans and purchases to the producer for the crop under subsection (a) at a level that is equal to 110 per centum of the level that would have been established for the crop under subsection (a) (without regard to the last sentence of subparagraph (B) but for the operation of this subparagraph.";

(E) in paragraph (4)—

(i) striking out "paragraphs (2) and (3) of this subsection" and inserting in lieu thereof "subparagraphs (B) and (C)"; and

(ii) redesignating such paragraph as subparagraph (D);

(F) in paragraph (5)—

(i) in the first sentence, striking out "or set-aside";

(ii) striking out the sixth through eleventh sentences; and

(iii) redesignating such paragraph as paragraph (2),

(G) in paragraph (6)—

(i) in the first sentence, striking out ", set-aside acreage,"; and

(ii) redesignating such paragraph as paragraph (3); and

(H) redesignating paragraph (7) as paragraph (4); and

(3) in subsection (k), striking out "subsection (e)(2)" and all that follows through the end thereof and inserting in lieu thereof "subsection (e)(1)(A).".

UPLAND COTTON

SEC. 113. Effective for the 1984 and 1985 crops of upland cotton, section 103(g)(9)(A) of the Agricultural Act of 1949 (7 U.S.C. 1444(g)(9)(A)) is amended by—

(1) inserting "(1)" after the subparagraph designation;

(2) in the first sentence, striking out "the Secretary may" and all that follows through the end thereof and inserting in lieu thereof the following: "if producers disapprove a national cropland conservation program proclaimed for a crop of commodities under section 107C and the Secretary determines that the carryover of upland cotton at the beginning of the marketing year which begins in the calendar year of the disapproval exceeds four million two hundred thousand bales, then the Secretary shall establish an acreage limitation program for each of the 1984 and 1985 crops.";

(3) in the second sentence, inserting "of not less than 20 per centum" after "reduction";

(4) in the fourth sentence, striking out "subparagraph" and inserting in lieu thereof "clause";

(5) in the seventh sentence—

(A) striking out "(i)" and inserting in lieu thereof "(I)"; and

(B) striking out "(ii)" and inserting in lieu thereof "(II)";

(6) in the tenth sentence, striking out "paragraph" and inserting in lieu thereof "subparagraph";

(7) in the last sentence, striking out "paragraph" and inserting in lieu thereof "subparagraph";

(8) adding at the end thereof the following new sentence: "If an acreage limitation program is announced under this clause for a crop of upland cotton, the Secretary shall make available loans for the crop under paragraph (1) at a level that is equal to 110 per centum of the level that would have been established for the crop under such paragraph but for the operation of this sentence."; and

(9) adding at the end thereof the following new clause:

"(ii) If an acreage limitation program is announced under clause (i) for a crop of upland cotton, a producer may enter into an agreement with the Secretary under which—

"(I) the producer shall agree to withdraw from production (in addition to the acreage withdrawn from production under clause (i)) and devote to conservation uses, in accordance with regulations issued by the Secretary, 10 per centum of the applicable acreage base established under clause (i); and

"(II) the Secretary shall agree to make available (in lieu of amounts made available under the last sentence of clause (i)) loans to the producer for the crop under paragraph (1) at a level that is equal to 120 per centum of the level that would have been established for the crop under paragraph (1) (without regard to the last sentence of clause (i)) but for the operation of this clause.".

Subtitle C—Miscellaneous Conforming Amendments

SEC. 121. (a) Effective for the 1984 and 1985 crops of wheat, feed grains, upland cotton, and rice, section 1101(4) of the Agriculture and Food Act of 1981 (7 U.S.C. 1308(4)) is amended by striking out "a set-aside or" and inserting in lieu thereof "an".

(b) Section 113 of the Agricultural Act of 1949 (7 U.S.C. 1445h) is repealed.

(c) Section 1001 of the Food and Agriculture Act of 1977 (7 U.S.C. 1309) is repealed.

TITLE II—FARM STORAGE FACILITY LOAN PROGRAM

SEC. 201. The second sentence of section 4(h) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714b(h)) is amended by inserting, before the period, a colon and the following: "*And provided further,* That the Corporation shall guarantee loans made by legally organized lending institutions to grain growers for the construction or purchase of facilities for the storage of grain harvested by the growers, except that no more than 90 per centum of the amount of principal and interest of any loan may be guaranteed and no more than $250,000,000 of the principal and interest may be guaranteed in the aggregate in any fiscal year".

TITLE III—BARTER OF AGRICULTURE COMMODITIES FOR STRATEGIC AND CRITICAL MATERIALS AND PETROLEUM PRODUCTS

BARTER OF AGRICULTURAL COMMODITIES

Sec. 301. Section 4(h) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714b(h)) is amended by—

(1) in the third sentence—

(A) striking out "is authorized," and inserting in lieu thereof "shall, to the maximum extent practicable, in consultation with the Secretary of State, and"; and

(B) striking out "to";

(2) in the sixth sentence, striking out "Secretary of the Treasury" and inserting in lieu thereof "Administrator of General Services"; and

(3) inserting after the sixth sentence the following new sentences: "If the volume of petroleum products stored in the Strategic Petroleum Reserve is less than the level prescribed under section 154 of the Energy Policy and Conservation Act (42 U.S.C. 6234), the Corporation shall, to the maximum extent practicable, with the approval of the Secretary of Agriculture, and in consultation with the Secretary of Energy and the Secretary of State, accept petroleum products produced abroad in exchange for agricultural commodities acquired by the Corporation and shall transfer the petroleum products, without reimbursement, to the Secretary of Energy to be placed in the Reserve. In effecting exchanges under the preceding sentence, normal commercial trade channels shall be used insofar as practicable.".

REPORT

SEC. 302. No later than ninety days after the date of the enactment of this Act, the Secretary of Agriculture shall submit to Congress a report that contains a description of the status of programs, being carried out under section 4(h) of the Commodity Credit Corporation Charter Act (15 U.S.C.

714b(h)) and other provisions of law, that relate to the barter or exchange of commodities owned by the Commodity Credit Corporation for materials and products produced in foreign countries.

TITLE IV—EMERGENCY AGRICULTURAL CREDIT

SEC. 401. (a) The first sentence of section 202 of the Emergency Agricultural Credit Adjustment Act of 1978 (7 U.S.C. prec. 1961 note) is amended by striking out "may" and inserting in lieu thereof "shall".

(b) Section 211 of the Emergency Agricultural Credit Adjustment Act of 1978 (7 U.S.C. prec. 1961 note) is amended by—

(1) striking out "September 30, 1982" and inserting in lieu thereof "September 30, 1985"; and

(2) immediately after "$600,000,000", inserting a comma and "except that, in fiscal year 1983, such $600,000,000 shall be in addition to the total amount of money borrowed under contracts of guarantee entered into under the authorization provided in the Act of December 18, 1982 (Public Law 97-370, 96 Stat. 1799)".

(c) The first sentence of section 329 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1970) is amended by striking out "30 per centum" and inserting in lieu thereof "20 per centum".

TITLE V—AGRICULTURAL EXPORTS

AGRICULTURAL EXPORT CREDIT REVOLVING FUND

SEC. 501. It is the sense of Congress that in fiscal year 1983 not less than $1,000,000,000 should be made available to the agricultural export credit revolving fund established under section 4(d) of the Food for Peace Act of 1966 (7 U.S.C. 1707a(d)).

GRAIN SALES TO UNION OF SOVIET SOCIALIST REPUBLICS

SEC. 502. It is the sense of Congress that, as soon as practicable after the date of the enactment of this Act, the President should take action to initiate negotiations with the Government of the Union of Soviet Socialist Republics to conclude a multiyear agreement under which such Government would purchase grain produced in the United States.

TITLE VI—WHITE HOUSE CONFERENCE ON AGRICULTURE

SEC. 601. (a) It is the sense of Congress that the President should—

(1) convene a White House Conference on Agriculture, no later than one year after the date of the enactment of this Act, to study current problems in the agricultural sector of the economy and to develop recommendations for legislation and administrative action regarding short-term and long-term solutions to such problems; and

(2) appoint members of the White House Conference on Agriculture from among—

(A) heads of organizations comprised of producers of agicultural commodities.

(B) representatives of the banking industry,

(C) representatives of businesses that provide services, or produce goods, used by producers of agricultural commodities,

(D) heads of organizations representing the interests of consumers, and

(E) producers of agricultural commodities.

(b) If the President convenes a White House Conference on Agriculture, the Conference shall submit a report to the President and to Congress, no later than one year after the members of the Conference are first appointed, containing the recommendations developed through the Conference, as provided in subsection (a) of this section.

II

98TH CONGRESS
1ST SESSION

S. 130

To amend the Consolidated Farm and Rural Development Act to provide credit assistance to farmers, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. COCHRAN (for himself and Mr. NUNN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Consolidated Farm and Rural Development Act to provide credit assistance to farmers, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Improvement Act of 1983".

LIMITATION ON OPERATING LOANS

SEC. 2. Clause (1) of section 313 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1943(1)) is amended by striking out "$100,000" and inserting in lieu thereof "$300,000".

CONSOLIDATION AND RESCHEDULING OF OPERATING LOANS

SEC. 3. (a) The second sentence of section 316(b) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1946(b)) is amended by striking out "seven years" and inserting in lieu thereof "fifteen years".

(b) The fifth sentence of section 316(b) of such Act is amended to read as follows: "The interest rate on such consolidated or rescheduled loans, other than guaranteed loans, shall be the lower of (1) the rate charged under the prior loans so consolidated or rescheduled, (2) or the rate being charged for loans made under this subtitle at the time of the consolidation or rescheduling.".

EXTENSION OF TIME FOR ADDITIONAL EMERGENCY LOANS

SEC. 4. (a) Notwithstanding section 330 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1971), subsequent loans to continue a farming, ranching, or acquaculture operation may be made under subtitle C of such Act on an annual basis—

(1) in the case of borrowers who have outstanding loans approved by the Secretary of Agriculture under such subtitle after December 15, 1979, and before October 1, 1981, for not to exceed four additional years; and

(2) in the case of borrowers who have outstanding loans approved by the Secretary of Agriculture under such subtitle after September 30, 1981, and before October 1, 1982, for not to exceed three additional years.

(b) Subsequent loans made pursuant to the authority of subsection (a) shall be subject to the limits on loans and rates of interest established under section 324 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1964).

FARM CREDIT ASSISTANCE

SEC. 5. It is the sense of the Congress that the Secretary of Agriculture should exercise, to the maximum extent practicable, any authority that the Secretary may have to defer principal and interest on, forego foreclosure on, consolidate or reschedule, or provide other forms of credit assistance for any outstanding loans made, insured, or held by the Secretary under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.), or under the provisions of any other law administered by the Farmers Home Administration, upon a showing by the borrower that due to circumstances beyond the borrower's control the borrower is temporarily unable to continue making payments on such loans when due without unduly impairing the standard of living of the borrower.

II

98TH CONGRESS
1ST SESSION

S. 765

To amend the Consolidated Farm and Rural Development Act to reauthorize loans made, insured, or guaranteed under such Act for the 1984 through 1986 fiscal years, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 10 (legislative day, MARCH 7), 1983

Mrs. HAWKINS introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Consolidated Farm and Rural Development Act to reauthorize loans made, insured, or guaranteed under such Act for the 1984 through 1986 fiscal years, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Consolidated Farm and Rural Development Act Amendments of 1983".

WATER AND WASTE DISPOSAL FACILITY LOANS

SEC. 2. Section 307(a)(3)(A) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1927(a)(3)(A)), is amended—

(1) by striking out "and" after "1 per centum;";

(2) by striking out "the poverty line prescribed by the Office of Management and Budget as adjusted under section 624 of the Economic Opportunity Act of 1964 (42 U.S.C. 2971d)" and inserting in lieu thereof "80 per centum of the statewide nonmetropolitan median family income"; and

(3) by inserting before the period at the end thereof the following: "; and not in excess of 7 per centum per annum on loans for such facilities which do not qualify for the 5 per centum per annum interest rate and which are for the upgrading of existing facilities or construction of new facilities as required to meet applicable health or sanitary standards in areas where the median family income of the persons to be served by the facility is between 80 per centum and 100 per centum (both figures inclusive) of the statewide nonmetropolitan median family income".

BUSINESS AND INDUSTRY LOANS

SEC. 3. (a)(1) Paragraph (5) of section 310B(d) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1932(d)(5)) is amended to read as follows:

"(5) No loan commitment may be issued under this section, section 304, or section 312 unless the applicant has invested, or is committed to invest, as equity an amount of not less than 20 per centum in the business or industrial enterprise for which purpose the loan is to be made."; and

(2) Section 310B(d) of such Act is further amended by adding at the end thereof the following new paragraph:

"(7)(A) In making, insuring, or guaranteeing loans under this section, the Secretary shall accord highest priority to applications in connection with business or industrial enterprises that are to be located in areas of economic distress.

"(B) For purposes of subparagraph (A), an area is an area of economic distress if—

"(i) the median family income for families living in the area is below the poverty line prescribed by the Office of Management and Budget; or

"(ii) at least 70 per centum of the households living in the area have incomes below 80 per centum of the statewide nonmetropolitan median family income; or

"(iii) the average rate of unemployment in such area for the most recent twenty-four-month period for which data is available was at least 150 per centum of the average national rate of unemployment for such period.".

(b) Section 344 of such Act (7 U.S.C. 1992) is amended—

(1) by striking out "10 per centum" in the first sentence and inserting in lieu thereof "20 per centum"; and

(2) by striking out "90 per centum" in the second sentence and inserting in lieu thereof "80 per centum".

LOW-INCOME FARM OWNERSHIP LOANS

SEC. 4. Section 310D of the Consolidated Farm and Rural Development Act (7 U.S.C. 1934) is amended by adding at the end thereof the following new subsection:

"(c)(1) Upon the disposition of property acquired with assistance received by a borrower under this section, the Secretary shall recapture all or a portion of such assistance.

"(2) Notwithstanding any other provision of law, any assistance provided to a borrower under this section whenever rendered shall constitute a debt secured by the security instrument given by the borrower to the Secretary to the extent that the Secretary may recapture such assistance.".

REVIEW OF BORROWERS' STATUS

SEC. 5. Section 311 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1941) is amended by adding at the end thereof the following new subsection:

"(c) In any case in which an applicant has received loans under this subtitle in each of the five calendar years preceding the year in which he has made application for a new or additional loan under this subtitle, the Secretary shall, before approving any such loan, review the financial status of the applicant, including—

"(1) any record of improvement in the applicant's financial condition; and

"(2) the likelihood that providing additional credit under this subtitle will enable the applicant to obtain sufficient credit from private commercial sources in subsequent years.".

AUTHORITY TO REQUIRE THE PURCHASE OF CROP INSURANCE

SEC. 6. (a) Section 313 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1943) is amended—

(1) by inserting "(a)" after the section designation; and

(2) by adding at the end thereof the following new subsection:

"(b) If crop insurance is available to an applicant for a loan made or insured under this subtitle, the Secretary may require, as a condition of eligibility for such loan, that the applicant obtain such insurance on crops which have been planted or are to be planted and which will provide substantial security for the loan.".

(b) Section 324 of such Act (7 U.S.C. 1964) is amended by adding at the end thereof the following new subsection:

"(f) If crop insurance is available to an applicant for a loan made or insured under this subtitle, the Secretary may require, as a condition of eligibility for such loan, that the applicant obtain such insurance on crops which have been planted or are to be planted and which will provide substantial security for the loan.".

OIL AND GAS LEASING PROCEEDS

SEC. 7. (a) The Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) is amended by inserting after section 333 (7 U.S.C. 1983) the following new section:

"SEC. 333A. The Secretary shall permit a borrower of an ownership, operating, or emergency loan under this title to use proceeds from the leasing of oil or gas rights, or both, or other mineral rights, on real property securing the loan, to make prospective payments on the loan.".

(b) Section 204 of the Emergency Agricultural Credit Adjustment Act of 1978 (7 U.S.C. 1946 note) is amended by adding at the end thereof the following new subsection:

"(e) The Secretary shall permit a borrower of a loan under this title to use proceeds from the leasing of oil or gas rights, or both, or other mineral rights, on the real property securing the loan, to make prospective payments on the loan.".

AUTHORIZATION OF INSURED AND GUARANTEED LOAN AMOUNTS

SEC. 8. (a) Subsection (b) of section 346 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1994(b)) is amended to read as follows:

"(b)(1)(A) To the extent provided in advance in appropriation Acts, loans for each of the fiscal years 1984, 1985, and 1986 are authorized to be insured, or made to be sold and insured, or guaranteed under the Agricultural Credit Insurance Fund as follows:

"(i) real estate loans, $818,000,000, including—

"(I) $775,000,000 for farm ownership loans of which $700,000,000 may be for insured loans and $75,000,000 may be for guaranteed loans with authority to transfer 25 per centum of such amounts between categories; and

"(II) $31,000,000 for water development, use, and conservation loans of which $25,000,000 may be for insured loans and $6,000,000 may be for guaranteed loans with authority to transfer 25 per centum of such amounts between categories;

"(ii) operating loans, $1,600,000,000, of which $1,547,000,000 may be for insured loans and $53,000,000 may be for guaranteed loans with authority to transfer 25 per centum of such amounts between categories; and

"(iii) emergency insured and guaranteed loans in amounts necessary to meet the needs resulting from natural disasters.

"(B) For purposes of subparagraph (A), not less than 15 per centum of the insured loans authorized for farm ownership purposes and not less than 15 per centum of the insured loans authorized for farm operating purposes shall be for low-income, limited-resource borrowers.

"(2) To the extent provided in advance in appropriation Acts, loans for each of the fiscal years 1984, 1985, and 1986 are authorized to be insured, or made to be sold and insured, or guaranteed under the Rural Development Insurance Fund as follows:

"(A) insured water and waste disposal loans, $300,000,000;

"(B) insured community facility loans, $130,000,000; and

"(C) guaranteed industrial development loans, $400,000,000.".

(b) Subsection (d) of section 346 of such Act is repealed.

DEPARTMENT OF AGRICULTURE STUDIES

SEC. 9. (a)(1) The Secretary of Agriculture shall conduct a study of the practicality and methods of assisting and encouraging borrowers of Farmers Home Administration farm loans to improve their knowledge and use of various marketing techniques.

(2) No later than one hundred and twenty days after the date of enactment of this Act, the Secretary shall submit a report on the results of the study and the Secretary's recommendations for implementing a program consistent with the findings of the study to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry.

(b)(1) The Secretary of Agriculture shall conduct a study of the practicality and cost-effectiveness of providing individual onsite water and waste treatment systems in rural areas rather than central or community systems.

(2) No later than one hundred and twenty days after the date of enactment of this Act, the Secretary shall submit a report on the results of the study to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry.

(c)(1) The Secretary of Agriculture shall conduct a study of the potential impact of the use of variable interest rates for loans made or insured under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.). In carrying out such study, the Secretary shall consider the appropriate index or indices to be used in determining the variations in such interest rates so as to provide the loans at nonsubsidized rates.

(2) No later than one hundred and twenty days after the date of enactment of this Act, the Secretary shall submit a report on the results of the study to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry.

EFFECTIVE DATES

SEC. 10. (a) Except as provided in subsection (b), the amendments made by this Act shall become effective on October 1, 1983.

(b) Sections 7 and 9 of this Act shall become effective on the date of enactment of this Act.

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